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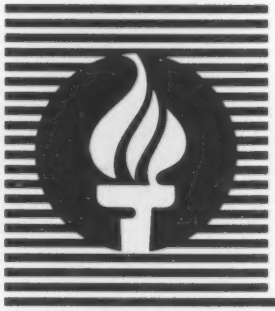

The Conference Board

Public Affairs In Financial Services

- *more emphasis on integrating activities with business strategies*
- *new attention to line executives' objectives, employee education and involvement*
- *expanding resources for public affairs*

Research Report No. 899

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Public Affairs in Financial Services

by Kathryn L. Troy

A Research Report from The Conference Board

Contents

	Page
HIGHLIGHTS	iv
WHY THIS REPORT	vi
1. PUBLIC AFFAIRS IN FINANCIAL SERVICE COMPANIES	1
Forging a New Industry	1
A Public Image Problem	2
Public-Affairs—New Roles, New Challenges	2
A Function in Transition	3
What's In a Name?	4
2. GOVERNMENT AFFAIRS: CHANGES AND CHALLENGES	5
Shifts in Lobbying Technique	5
Marshalling Information	5
Tapping the Grass Roots	6
Multiple Lobbying Approaches	6
Pressure as a Last Resort	6
Planning	6
Planning vs. Reacting	6
Resources	7
Organization and Internal Coordination	7
Working With Top Management	7
Working With Other Public-Affairs Professionals	8
Working With Line Executives	9
Issues at the Federal Level: The Government-Affairs Role	9
The Tax Challenge	9
Federal Legislation: Regulate, Deregulate or Restructure	9
Trade Associations	11
Grass-Roots Support	12
The Legislative Score Card	12
Safety and Soundness Across the Industry	12
Banks: Too Much Risk?	12
Insurers, Competition and Antitrust	13
Financial Planning: Oversight Needed?	13
Issues at the State Level	13
Insurers: Loss Reserves and Bankruptcy	15
States' Rights and National Banking	15
The Consumer Scene	15
3. COMMUNICATIONS	16
Responsibilities	16
Contact with Line Executives	16
Mandate and Strategy	18
Communications Spending on the Rise	18
Coping With Lean Budgets	19

Planning 20
Press and Media Relations 21
Disclosure 22
Employee Communications 22
Building and Polishing the Corporate Image 23
Corporate Advertising 24
Projecting the Corporate Image 26
Annual Reports 27
The Finishing Touch: "PR" Events, Promotions and the Like 27
Target Audiences 28
Predictions from Communications Executives 28
4. SOCIAL INVOLVEMENT 30
Scope of Programs 30
Contributions and Community Affairs 30
Coalitions Focus on Jobs and Education 32
Social Investments 32
Housing and Social Investment 33
Banks, Consumer Groups, and Local Investment 33
The Outsider Syndrome 38
Closing Bank Branches 39
Program Impact 39
APPENDIX: Summaries of Federal Legislation Currently Relevant to Financial Service Companies 41

Tables

1. Full-Time Responsibilities of Public Affairs Executives, by Major Industry Segment 3
2. How Public Affairs Executives Rate the Effectiveness of Their Programs 3
3. Responsibilities of Senior Communications Executives in Financial Service Companies 16
4. Purpose of Recent Press or Media Strategies 21
5. Reasons for Changes in Recent Corporate Advertising Campaigns 25

Charts

1. Lobbying by Financial Service Companies on Federal Taxes and Industry Regulation 10
2. Lobbying by Financial Service Companies on Issues Related to Safety and Soundness 13
3. Lobbying by Financial Service Companies on Consumer Issues 14
4. Internal Priorities of Communications Executives, 1983-1990 18
5. Increased Resources for Public Affairs Programs, 1983-1990 19
6. Target Publics for Recent Corporate Advertising Campaigns of Financial Service Companies 25
7. Degree of Reliance on Social Involvement Activities to Enhance Company Recognition/Reputation among Key Publics 29
8. Lobbying Efforts by Financial Service Companies on Community-Related Issues 38

Highlights

In the 1980's, deregulation and fast-paced competition are making the marketplace for financial services increasingly kaleidoscopic. Companies are striving to dazzle customers with a multifaceted array of financial products and services, and some firms are transforming themselves in the process. With shifting regulations, markets, and corporate images, the work of public-affairs executives is taking on new importance. Interviews and questionnaire responses from a cross section of executives responsible for government-affairs, corporate communications, and social-involvement activities show these general findings:

- More emphasis on strategic planning and on efforts to integrate public-affairs activities with corporate business strategies.
- Greater attention to coordinating individual public-affairs activities with the objectives of line executives as well as with those of other public-affairs professionals.
- Increased emphasis on employee education and involvement.
- More acceptance of the role of public affairs by top corporate management and a recent trend to put more resources into this function.

For the major groups within public affairs, these points emerge as crucial:

- *Government affairs* executives report that taxes and industry deregulation head the list of lobbying concerns for most of their companies. Many firms must also stave off criticism and legislative and regulatory initiatives related to risk, company solvency, and consumer fairness.
  - Trade associations have taken the lead on issues that generate broad consensus among their members, but major firms rarely rely solely on associations. On many key issues, they prefer to lobby directly, especially through coalitions.
  - Information is increasing in importance as a lobbying tool—government-affairs executives say that "hard data" are more likely to persuade legislators and regulators than are high-pressure tactics.
- *Corporate communications* executives report an atmosphere of excitement tinged with anxiety: As firms adjust to a more competitive environment, some communications departments are being reorganized and there is a new emphasis on market-driven activities and messages.
  - The majority of participating firms have corporate advertising campaigns, most of recent vintage. Such advertising usually focuses on heightening customer awareness about company image, but product messages are often blended in. As companies diversify, corporate ads are also used to attract and inform new target audiences and potential customers.
  - Most companies use promotions and special events to supplement and sometimes replace more expensive advertising campaigns. Events are often geared to a *particular segment* of customers. Concerts, art shows, and sports events are among the techniques used by most of the firms studied. Promotions and events with *broad* appeal are targeted at local opinion leaders as well as customers.
  - Media relations are growing in importance as financial service companies seek greater visibility. In general, communications executives report mutually cordial *personal* interchanges with members of the media. The media is also high on the list of audiences firms hope to reach through advertising and promotional campaigns.
  - Employees are another important constituency. Firms are devoting more resources to employee communications in an effort to help this group understand changes in corporate management, strategy and image.
- Executives who manage *social involvement* activities are searching for ways to demonstrate relevance both to the corporate bottom line and society's needs.
  - The vast majority of companies studied encourage volunteerism by employees and top management and all maintain a corporate contributions program.

- Working independently and in coalitions, some major companies are stressing projects that encourage students to complete high school and that develop housing in low-income areas.
- Community investment remains a sensitive topic for bank executives. They must balance concerns about corporate profit margins and investment risk with demands that they be responsive to local investment needs.
- Although nonprofit agencies are the key "public" that companies reach through their social involvement activities, communications executives also identify business leaders and local opinion leaders as important audiences.

Why This Report

Debates over cost cutting, restructuring and competitiveness continue to preoccupy top management in many large firms. In this environment, all managers, especially those in staff functions, must examine their mission and demonstrate its relevance to business objectives. This study examines that process in a microcosm, focusing on one fast-changing industry, financial services, and on one staff function, public affairs.

Increasing competition among providers of financial services has placed a spotlight on those executives who must communicate their firms' new image and business strategies to employees and external audiences. In this report, executives responsible for government affairs, corporate communications and social involvement offer their insights about redefining their function in a more market-driven business climate. Their strategies and practices can help business leaders in all fields that face this key challenge.

The Conference Board appreciates the time invested by executives in the 100 major financial service firms who participated in this study. Special thanks are extended to the many executives who participated in the interview portion of this research.

JAMES T. MILLS
President

Chapter 1
Public Affairs in Financial Service Companies

In the 1980's, public-affairs executives in many banking, insurance, securities and related service firms are on the front lines as their industry is being transformed and as perceptions of customers, employees, legislators, regulators and the general public are reshaped. This report focuses on the public affairs function in major U.S. firms that deliver financial services (see box). In particular, it examines how executives responsible for government affairs, corporate communications, and social involvement are adapting to a more diversified and highly competitive industry.[1]

Forging a New Industry

Change is erupting from within the core of today's financial services marketplace. Long dormant banks are spewing forth an array of products, ranging from credit cards and discount brokerage services to money market funds, retirement accounts, and home equity loans. Once staid insurance companies have surprises in store too, such as real estate services, Individual Retirement Accounts (IRAs), or "financial planning" agents.

To complicate matters, securities brokers now offer cash-management services that include forms of deposit taking and checking—privileges normally associated with banks. Novice investors can purchase securities at the retail chain where they buy their jeans. For some manufacturers of cars or major appliances, supplying buyers with installment loans has become big business—which means that the local bank is bypassed.[2] While the number of companies providing such a wide array of services is limited, these front-runners offer a preview of what many industry executives hope will be an expanded and lucrative world of diversified "financial services."

There are still many legal restrictions, among them the Glass-Steagall and Bank Holding Company Acts that prevent banks, insurance companies, and securities firms from invading one another's legally defined turf (see Appendix).

About This Report

The Conference Board selected large companies (based on assets) as subjects for this report on public-affairs professionals in major financial-service companies, because such firms are more likely to have separate public-affairs units. In August, 1986, two questionnaires were mailed to senior communications and government- affairs executives in 338 companies. These included the top 100 commercial banks, top 50 savings institutions (thrifts), top 50 life insurers, and top 50 diversified financial companies listed in *FORTUNE Magazine*'s 1985 "Service 500" list, as well as 95 other financial companies known to have active public-affairs operations.[1]

Overall, 100 companies participated in this study. Questionnaires were returned by 65 government-affairs and 81 communications executives representing 93 companies. Executives in 7 companies did not respond to the questionnaires but were among the 50 professionals in 30 companies who participated in interviews. Interviews were carried out between late Spring and early Fall, and most questionnaires were returned by mid-October, 1986. Half of the top 50 life insurers, 40 percent of the top 100 banks and 22 percent of the top 100 savings and diversified financial companies participated in this project.

[1]Since *FORTUNE* includes some companies on both its life insurance and diversified financial lists, the total of banks, savings institutions, insurers, and diversified financials listed is less than 250 companies. Thus, with an additional 60 banks (in the next asset-size grouping) and 35 other financial companies selected to supplement those listed by *FORTUNE*, the total number sampled amounted to 338.

[1] An earlier Conference Board study examined how chief financial officers in U.S. companies view the changes in this industry. See Vincent G. Massaro, *Corporate Finance and the Changing U.S. Financial Structure*. The Conference Board, Report No. 790, 1980.

[2] The General Motors Acceptance Corporation (GMAC) is an example. When GMAC's 1985 assets of $75.4 billion are compared to those of the top U.S. banks, it ranks number five. In addition to wholesale and retail financing, the company has leasing, insurance, and mortgage banking operations, as well as servicing operations for retail installment obligations it has sold to third parties.

Yet, the lines of demarcation have been eroded by regulatory reforms and companies' use of legal "loopholes." Major financial firms are searching out those loopholes and lobbying aggressively to break down the remaining regulatory barriers.

A Public Image Problem

While battles are waged on competitive and regulatory fronts, banks, insurance companies, and securities firms are also saddled with image problems that have implications for public affairs practitioners. Details are in the accompanying box, but in brief the major issues are the following:

- For banks, there is the question of public misgivings about "safety and soundness."
- For insurers, public concern centers around the availability of coverage of serious illness, such as AIDS; the limited availability of property and casualty insurance; and the growing number of insurer insolvencies.
- For securities firms, there is the intense public attention now focused on insider-trading scandals as well as questions about firms involved in takeovers.

Public-Affairs—New Roles, New Challenges

Service and manufacturing companies differ in the staff resources they allocate to deal with major constituencies. For example, in a recent Conference Board study of large U.S. corporations, higher percentage of service than manufacturing firms reported assigning full-time responsibility to state government relations and employee communications. Moreover, survey results suggest that financial service firms are more likely to assign full-time responsibility to corporate advertising, corporate contributions and issues management than are other service firms or manufacturers. (See Table 1.)

Public-affairs executives in manufacturing appear less upbeat about their accomplishments than their counterparts in the service sector, especially financial service companies. The differences in how financial service firms rate themselves are most perceptible in such functions as corporate contributions, community relations, corporate advertising and issues management. (See Table 2.) In general, the higher level of satisfaction in service companies may reflect the oft-reported differences in prosperity between the manufacturing and service sectors. Almost a third of the manufacturing firms participating in the Board study suffered a decline between 1984 and 1986 in the size of their public affairs staff. In contrast, only about 20 percent of the financial service firms and about a quarter of other service firms reported declines. Manufacturers also lag behind service firms in using outside resources to supplement their internal staff (see box on page 4).

The upbeat attitude of financial service executives may also reflect the recent growth and evolution of their function. In many manufacturing firms, this function may have matured already, making executives more critical of their efforts and more focused on perfecting and protecting what they have built.

Executives in financial service firms report more systematic involvement with top management committees on public-

Public Image Challenges

Safety and Soundness Questions for Banks: These arise from reports of bank failures in states where agriculture and energy have been economic linchpins, as well as from indications of a weakened financial condition in some major banks, partially owing to their extensive lending to third world countries.

News of a dramatic number of failures among thrift institutions (savings and loans and mutual savings banks) has also upset regulators and consumers. During the 1970's, the interest rates that thrifts had to pay to acquire funds rose, while the interest they were receiving from long-term mortgage loans (their main business) was locked in at lower, pre-inflationary rates. Hoping to improve their profit margins, some thrift institutions (and commercial banks as well) began to take on more loan and investment risks, but in many cases this only exacerbated the problem.

Insurers in the Spotlight: Increases in rates for commercial liability insurance coverage have brought property and casualty insurers under close public scrutiny in the past few years. These firms contend that they are charging rates comparable to the risk they are assuming; they also point to a growth in liability suits and costly court awards to explain higher rates and more restricted coverage.

Their critics charge that insurers expanded their coverage during the 1970's in order to attract funds and invest them at high interest rates. Now that rates have dropped, critics contend, insurance companies have abandoned their customers or increased their insurance premiums dramatically.

As property and casualty insurers struggle to inform the public about what they believe is their industry's realistic response to its business conditions, *life* insurers worry about being tainted through "guilt-by-association". There is also concern about their responsibility as insurers in sensitive cases, such as those involving AIDS victims.

Securities Firms Feel the Heat: Within the past few years, those concerned about both the structure of U.S. business and the securities industry have questioned the wisdom of using low-rated "junk bonds" to help finance corporate takeovers. While the pros and cons were still being argued, 1986 brought new dilemmas: Allegations about use of insider information to profit from planned corporate takeovers spread through Wall Street and beyond. Securities traders, lawyers and investment bankers are worrying about possible involvement by members of their firms and about the legal and regulatory fallout.

affairs issues or in providing staff support for outside activities. (This would include testimony before legislative and regulatory bodies.) In addition, a greater proportion are active in business coalitions and/or trade groups.[3]

[3] See Seymour Lusterman, *The Organization and Staffing of Corporate Public Affairs*. The Conference Board, Report No. 894, 1987. The data assembled for this study were used to analyze differences among financial-service, manufacturing and other service companies.

A Function in Transition

The various segments of the financial services industry give their public-affairs function different roles. Historically, public-affairs activities for banks and insurance companies have meant community- and public-relations efforts on the local level and government-relations efforts at the state level. At the federal level, lobbying and other concerns were left largely to trade associations. Until recently, many major securities firms were privately held, kept a low profile, and

Table 1: Full-Time Responsibilities of Public Affairs Executives, by Major Industry Segment

Area of Responsibility	*Percent of Companies Assigning Full-Time Responsibility*		
	Financial Service	*Other Service*	*Manufacturing*
	*(N=49)**	*(N=60)**	*(N=130)**
Public, media or press relations	70%	85%	65%
Employee communications	75	80	60
Government relations:			
-state or local	55	80	40
-federal	55	60	55
Community relations	55	55	40
Corporate contributions	50	40	25
Corporate advertising	50	40	25
Investor or financial relations	45	50	50
Stockholder relations	40	45	40
Issues management	30	20	20

*N represents the average number of responses to the question for that industry segment. The actual number of companies responding in each area of responsibility may vary from 1 to 3 companies above or below this number. Percentages are rounded.

Table 2: How Public Affairs Executives Rate the Effectiveness of Their Programs

Program	*Percent Rating Good or Excellent*		
	Financial Service	*Other Service*	*Manufacturing*
	*(N=40)**	*(N=50)**	*(N=120)**
Public, media or press relations	95%	90%	80%
Government relations:			
-state and local	95	90	60
-federal	80	90	75
Community relations	85	75	70
Corporate contributions	85	75	75
Investor relations	85	80	90
Stockholder relations	80	85	80
Corporate advertising	75	65	40
Issues management	65	50	50

*The number of responding to each item varies. N represents the average number of responses. Percentages are rounded.

had less need for many of these activities. Often, the groups assigned to deal with the company's various constituencies operated as entirely separate functions. One executive might have handled community, public and press relations, but government relations was more often the responsibility of the general counsel's office as the work frequently involved technical, regulatory issues.

Observers of organizational bents in public affairs sometimes point to *consolidation* as part of the evolutionary process the function has undergone over the past 20 years. Indeed, more than half the manufacturing and nonfinancial service firms surveyed report a consolidation of public relations and government relations (as well as a variety of other functions) under one executive, while this is true for only about 30 percent of financial service firms.[4] In conversations, financial service executives say that as government relations takes on broader connotations of public policy in their companies, there has been a tendency to consolidate operations. Nevertheless, regulatory responsibilities may remain within the purview of the general counsel, particularly in insurance companies.

What's In a Name?

As the consolidation process evolves, executives in both manufacturing and service companies are struggling to name their more broadly defined function. "Public affairs" appears a frequent favorite, but "corporate affairs" and "corporate relations," among others, are also being tried. "Corporate communications" appears in vogue to designate public relations and other communications activities in companies in which such endeavors are organized separately from government relations. In such cases, "public affairs" is used in a narrower sense—to denote only government and public-policy activities.

To avoid confusion, this study uses "public affairs" to designate the broadest spectrum of activities involving corporate constituencies. "Government affairs" denotes public-policy activities and corporate interaction with the various branches of federal, state and local government; public or media relations and other forms of information exchange with internal and external constituencies are designated "corporate communications." "Social involvement" is used to describe activities such as contributions, sponsorship of employee-volunteer programs, social service by top executives, as well as the corporate role in community and economic development.

[4] Lusterman, 1987.

Using Outside Resources

Companies in many industries have "downsized" or, at the least, vowed to keep a tight rein on staffing. During periods when workloads are high or when special expertise is needed, many companies now prefer to tap outside resources instead of adding to their staff. Of the 300 diverse firms that participated in the Conference Board's study of the organization of the public-affairs function, about 30 percent use outsiders to monitor federal legislative developments. The same percentage of manufacturing firms utilize outsiders for investor and financial relations, but this is true for only 15 percent of service firms, including financial service firms.

Financial service firms, however, appear to lead the way in using outside resources for other purposes:

- About a third of financial service companies use outsiders on an annual or other retainer basis for lobbying and related communications at the federal and state levels. Four out of ten follow this practice for state legislative monitoring as well as for a broad spectrum of needs in media and public relations. Fewer manufacturing or other service firms (between 10 and 30 percent) use outsiders on a regular basis for these purposes.
- Within the past two years, almost 40 percent of financial service firms report increased use of outsiders for communications efforts related to lobbying at the federal level, compared with about 30 percent of the manufacturing firms and a quarter of other service firms. But these two groups were more likely to have increased their use of outsiders for state-level lobbying and communications needs than were financial service firms.
- More than 80 percent of the financial firms report employing outsiders—usually on a project basis—for surveys of the public or special groups. About 50 percent of the manufacturers seek this kind of help.

Chapter 2
Government Affairs: Changes and Challenges

Government-affairs practitioners may be called upon to monitor issues, coordinate the company's political action committee, represent the company in the industry trade association, or write an internal newsletter on key legislative, regulatory and political concerns. Their core activity, however, is to lobby—to acquaint legislators and regulators with the corporate viewpoint and to persuade them to factor it into policy making decisions. Survey data, interviews, and press reports point to major changes in the way government-affairs executives approach lobbying in the changing financial climate.

Shifts in Lobbying Technique

Overall, there is much less emphasis on what these professionals describe as heavy-handed "slap-em-on-the-back" lobbying. Rather they see their job evolving into that of an information manager as much as that of a lobbyist. In today's environment, say some government affairs executives, to marshall information about constituencies and the level of support for an issue is to persuade.

To reach their audience, government-affairs executives in major banks, insurance companies, and securities firms report that they are less and less likely to rely on trade associations. Instead they tend to lobby independently or to form ad-hoc industry coalitions around specific issues. The executives note that differing objectives among large and small companies make it difficult for individual industry associations to coalesce around an issue. A senior government-affairs executive at a major bank observes: "Coalitions are evolving because certain banks, securities, and other financial service firms are finding that they have more of a community of interest with one another than with the broad cross-section of firms in their own industry."

This does not mean that trade associations are irrelevant, however; they are still considered effective for defending clearly defined positions or for orchestrating industry response to an obvious threat. The American Council of Life Insurance (ACLI) response to proposed taxation of employee benefits and "inside buildup" is an example (see p. 11).

Marshalling information

Improved technology and better-informed legislative staffs make it possible and desirable to use information as a lobbying tool. "The people, the issues, and perceptions all have changed. Today's legislators are more intelligent, more committed, and better educated. They work harder on the issues and have better staff people supporting them ... the thing you can't do is throw your weight around or talk in generalities," says Shawmut Bank's government-affairs executive. "As legislators have become more data oriented, we have become more research oriented and have gotten a lot more receptivity," he comments.

A government-affairs executive at Travelers agrees: "Legislators look to lobbyists for information; effective lobbyists will provide the most complete set of documents available." Other executives note that they use electronic data bases to provide census and other information that might help persuade legislators or be of use to their staff.

Nor are legislators the only target: "Regulators are the most disoriented players in the whole financial-service scene," says an executive of a diversified company. "They have neither the staff or the expertise to cope with the new environment. Our industry must work harder to bring them along—in the next five years, that may be the biggest challenge before us."

There is also much closer scrutiny by the media of legislators and regulators; constituents may learn how their representatives voted on a key issue within hours. Consumer groups act as watchdogs of regulatory agencies and governing bodies and know how to get access to the media if they anticipate unfavorable action on issues they consider important.

Tapping the Grass Roots

Employees are becoming a more important constituency, not only because they are potential contributors to a political action committee (PAC), but also because they can be a potent resource in grass-roots lobbying campaigns. "Sears is the nation's second largest private employer. We know the value of grass-roots efforts, but we try to use them sparingly in order to create more impact when we do use them," says Dean Witter's government-affairs executive.

An executive of a large insurer notes that it launched a major grass-roots campaign over the tax reform issue. Every employee received an information packet and was asked to contact the House Ways and Means Committee. "Ten years ago this could not have happened ... top management would not have allowed it," notes the executive.

In some firms, company managers are drafted as part of a grass-roots network in order to reach legislative and regulatory constituents around the country. "In the past six or seven years, it has become obvious that no one person can handle the government-affairs responsibility for the company all over the country. One solution has been to help people doing a job that needs legislative assistant get involved in making their case. We try to give them the skills they will need to work with legislators," says the government-affairs executive of Norwest Bank. Communications vehicles such as audio tapes, newsletters and brochures are used to keep managers abreast of issues.

Multiple Lobbying Approaches

"It is no longer enough to appear at a hearing or sit down with a committee chairman," says a government-affairs executive at Travelers. "Today we coordinate some of our activities with those of our community affairs department; or we might use a direct mail campaign to constituents of a legislator in a specific district or participate in an advertising campaign on an important issue."

Participants in this study reported supplementing their lobbying activity with articles and editorials or advertisments on a number of issues: In insurance, the issue of unisex coverage evoked such response from nine companies and the AIDS issue from five. Taxation issues also inspired companies to take up the pen—seven insurers did so on inside buildup and five on taxation of employee insurance benefits and 401 (k) plans. Bank activity was quite scattered—single companies took one or more approaches (articles, editorials or advertising) on selected issues. One issue, regional interstate banking, inspired activity by six banks.

Pressure as a Last Resort

Some companies are also considering more drastic measures at the federal level. Executives of some large banks speculate about bank charters being renounced, if Congress and federal regulatory agencies do not remove the barriers that restrict banks from underwriting securities. If a bank were to make such a move, it would probably be transformed into a species of diversified financial company. Although it is unlikely such a move would take place without suits, counter suits, and prolonged court battles, regulatory agencies are not eager to test the banks' resolve.[1]

The "foreign threat" strategy is also being used in the campaign for financial service deregulation. Some major U.S. financial service companies say they are hampered from competing with foreign firms because of the barriers placed on the products and services they offer. Pointing to a recent deal in which Japan's Sumitomo Bank purchased a large stake in a major U.S. securities firm (Goldman, Sachs), forces favoring deregulation hope to use the issue of "competitiveness" as a lever to move Congress. Underlining this point, a major insurance publication recently quoted the government-executive of American Express as saying that without regulatory change, the U.S. financial services industry would become a "rust bowl" in which foreign companies would dominate the marketplace.[2]

Planning

In the rapidly changing environment in which they work, government-affairs executives say that both planning and flexibility are essential. To get the resources they need, they must illustrate their function's relevance not only to top management but also to line executives.

Planning vs. Reacting

The consensus among government-affairs executives appears to be that planning and reacting must coexist. Their function has often been characterized as the corporation's chief "firefighting" operation. As such, it has alternately been criticized for its lack of planning and touted as a corporate activity that defies a planner's orderly constructs. The extent to which this function can be planned varies. "Larger companies with more resources are doing more planning today," says an insurance company executive. "You certainly can plan the proactive part of your program, and the payback can be enormous. But it is a tough internal sales job to get the resources."

An executive in a major bank notes: "We have always been heavily regulated and consider awareness of regulatory barriers quintessential. But there will always be firefighting. Our

[1] See Monica Langley, "U.S. Regulators Move to Let Banks Enter Several New Businesses," *Wall Street Journal*, December 29, 1986.

[2] Steven Brostoff, "Insurers Eye Financial Services Deregulation," *National Underwriter* (Property/Casualty Edition), January 26, 1987.

In March, 1987, American Express announced that a Japanese company, Nippon Life, will purchase 13 percent of the shares of Shearson Lehman Brothers, American Express' brokerage subsidiary. The companies say that they also plan several joint ventures in insurance and credit cards.

legislative agenda may be very nice, but that is not necessarily what the legislature is going to address." Company approaches to government-affairs planning and policy setting vary in structure and formality (see box).

Resources

Government-affairs professionals appear to be faring well as corporate resources are allocated among public-affairs activities. A core group of 30 of the 80 major financial service companies responded to the Board survey and supplied data indicating trends in resources allocated to government relations. More than two-thirds of these firms reported increases in the recent past (1983 to 1986). In the near future (1987 to 1990), about half expect increases in resources for state relations and this proportion is larger for federal relations. (See Chart 5, page 19.)

Organization and Internal Coordination

Although survey data indicate that government-affairs executives are holding their own in the competition for scarce corporate resources, in interviews many say that they continue to try to prove themselves. Beyond external audiences, there are also internal constituencies to be developed or served. These include top management, other public-affairs professionals, and executives in line operations or business units. Overall, the executives interviewed for this study believe that the structure of their department is less important than the frequency and quality of their interaction with internal constituencies. Separate government-affairs and corporate-communications functions present no problems to many of the government-affairs executives interviewed. Nor was there debate about the importance of having top management's backing.

Working With Top Management

A badge of honor for several of the executives was inclusion on a top management committee that discusses the business outlook or sets policy. "Our function is not yet ten years old and this means we have been accepted," said an executive within a medium-sized bank who sits on such a committee. Periodic briefings on issues or legislative affairs newsletters are other methods used to maintain contact with top management.

Some of the larger firms also have a Washington office. If the Chairman and/or President is in town, Washington representatives make it a priority to set up appointments "on

Establishing Government-Affairs Priorities

Companies use a variety of mechanisms to set priorities and develop plans:

- At CIGNA, issue monitoring is part of the day-to-day responsibilities of the government-affairs staff, but there is a formal process for assigning priorities and developing policy: Once a year the government-affairs staff calls upon executives in line operations and upon the legal staff to identify threats and opportunities and to formulate appropriate strategic responses.

  Senior management discusses the staff's assessment of the issues, weighs the relative priorities, and then approves a final issues agenda. The plan developed by government affairs is similar in format to those prepared by the company's major lines of business. Since the plan governs how staff members will allocate their time, it is reviewed and adjusted periodically as "some issues get hot and others peter out." Management delivers a status report to the Public Issues Committee of the corporate board of directors on a regular basis.

- Merrill Lynch and Dean Witter also incorporate issue monitoring into the day-to-day tasks of their government-affairs executives. In both companies, those managers prepare a formal plan. "Merrill Lynch is a plan-oriented company," says one of its government-affairs vice presidents. He and his colleagues share issue-monitoring activities; each specializes in one area but tries to provide back-up to associates by passing on relevant information. "We set objectives," he says, "but changes in deregulation and taxes also required a lot of fire fighting during 1985 and 1986."

  At Dean Witter, a part of the Sears Financial Network (which includes Allstate Insurance and a real estate company, Coldwell Banker), governmental relations executives coordinate with related lines of business. Planning includes two-year strategies, which are matched to to the length of a congressional session, as well as long-term strategies. "We believe in anticipating events; we do not want to be behind before we get started," comments the government-affairs executive at Dean Witter.

- Another option is to use an issue monitoring team. A major bank has a team at headquarters led by a Vice President, Public Policy. Members of this function coordinate with state and federal government-affairs executives, monitor issues, and prepare corporate policy statements. It is not necessary to have a formal system built into the annual planning cycle, says the unit's executive. Rather, "you want to break into the circuit and ask people to stop for a minute and think about things that will certainly be important to them."

the Hill." Said one executive: "Even if there is no legislation pending, we find it useful for them to have discussions about the future. We want to keep communications lines open." Occasionally, and on a selective basis, some government-affairs executives use top management to lobby. The Washington staff does the spade work, then asks the chairman or president to place a call to a key legislator "to underline how important the issue is to the company."

The ultimate vindication of this function is achieved when government affairs executives succeed in influencing legislation or regulation that improves the firm's bottom line. Security Pacific's Senior Vice President, Federal Government Relations gives one such example: the provision in the Depository Institutions (Garn-St.Germain) Act of 1982 that gave banks the green light to offer money market deposit accounts. "That brought in billions in new money that otherwise might have been lost to mutual funds," he says. "A coalition of Washington lobbyists worked to get it through and, after passage, worked on the technical side to shape it into something usable for banks and consumers."

Working With Other Public-Affairs Professionals

The companies studied had a variety of organizational arrangements for coordinating public-affairs activities. Although only 20 percent of the 81 senior *communications* executives who submitted questionnaires noted that their responsibilities include government affairs, they represent some of the largest banks and insurance companies. In a large company, the need for more central coordination may be one factor in the move to consolidate activities.

In the last few years, for example, First Bank System Minneapolis consolidated its functions into one unit called Corporate Relations (Exhibit 1). Its Senior Vice President says that the new unit is a response to both growth and a newly competitive environment. "With a guaranteed franchise in a protected market, banks did not have to seek out opportunities to present their message to the public," he says. "Communications and government affairs played roles before, but with deregulation they are becoming more important. We are now (1987) the 15th largest bank in the country. Size makes us more visible and we want to play our role more consistently."

Overall, companies that have reorganized believe that consolidation promotes a heightened awareness of the capabilities of the unit, increases interaction, and facilitates the utilization and coordination of resources. Such attributes may be important in a period when most corporate departments are expected to be lean on staff.

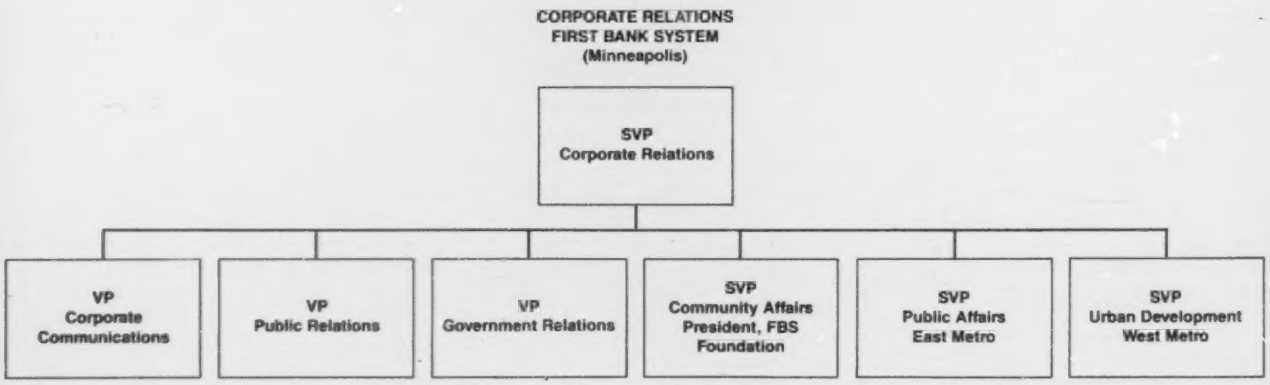
One possible drawback was offered by an executive of a large, diversified financial firm, however. His company had a consolidated public-affairs operation, but uncoupled government affairs from corporate communications a few years ago. "It is a question of shaping image versus shaping issues," he remarks. "It is important to government relations that we put forward a good corporate image, but that is not our overriding consideration. To get constructive legislation, we sometimes have to get into fights. That did not sit well with our communications staff."

Some companies address the coordination problem by using task forces or management committees. Such groups meet periodically to discuss strategies and problems and to encourage members to coordinate responses through day-to-day interaction. Membership may be limited to corporate staff units but sometimes includes key line managers as well. About half of the 53 financial service companies responding to a recent Conference Board study said that they use ad hoc or ongoing committees as a public-affairs resource.[3]

[3] Based on analysis of financial service respondents in data collected for Lusterman study, noted on page 3.

Exhibit 1:

Organization Chart



In companies with a Washington office, responsibilities may be split between Washington and corporate headquarters. Federal government relations at Sears' Dean Witter unit is carried out by a corporate executive who is part of a nine-person Washington team representing each of the company's major lines of business. Its government-affairs executives set the agenda and then work with the unit's Director of Communications to carry out plans. Basic public-relations needs (slide shows, speeches and the like) are covered in Washington. More sophisticated projects (e.g., editorial campaigns, publications,) are done in coordination with the communications staff at Sears' Chicago headquarters.

Working With Line Executives

For many government-affairs executives, people in the company's line operations or in individual business units are key internal constituents. Security Pacific's federal-affairs executive, for example, bills the services of his unit back to individual line managers. "If what I am working on isn't important to the person billed, we're in trouble," he says. Executives in other companies echo a similar point of view: "We have always been a line-driven operation," says Citibank's Vice President, Director Government Affairs. "At the beginning of the year we survey the line groups and ask them what they want; we hold meetings to discuss legislation and regulation and to set our priorities for the year. If we can't explain what we do in terms of line priorities, we are out of business."

To help build an internal constituency, Bank of Boston's government-affairs executive prepares a biweekly newsletter highlighting three or four key issues and their implications for the bank. He meets regularly with managers in line operations, such as marketing, to learn of their plans and to brief them on the external forces that may affect their activities. "If you are not part of the business discussion, you are not very useful to the institution," he states.

Government-affairs executives based in Washington have a particular advantage—they can involve (and impress) line managers by exposing them to the Washington lobbying scene. "It allows you to make sure that people running the lines of business both understand what you do and get some appreciation of the type of environment—they get a chance to feel the heat," says a federal-relations executive. The visit might include making lobbying rounds of Senators and Representatives or debating issues with senior Congressional staff members. The line people, some government-affairs executives observe, can often make the most compelling case for why something is necessary and important to the industry.

Beyond bringing colleagues to Washington, Merrill Lynch's federal-affairs executives sometimes ask local line managers to contact their Senators or Representatives in the home district. The reason: "The atmosphere is more relaxed and local people sometimes have a better chance of getting through."

Issues at the Federal Level: The Government-Affairs Role

"Taxes are the issue of the moment," says a government-affairs executive in a midwestern bank. "Deregulation is the issue of the decade." Intermingled with tax and deregulatory issues are a host of other concerns: the level of risk financial service companies should be allowed to take; how insolvent companies should be treated; and how fair financial companies are in their treatment of consumers and special groups. There is a wide range of issues currently of concern to the financial service companies that participated in this study, as Charts 1, 2 and 3 illustrate. Their lobbying response also varies.

The Tax Challenge

Events leading up to the Tax Reform Act of 1986 involved intense lobbying by government-affairs executives. Participants say the result of that effort was the forging of new coalitions that they expect to use in upcoming legislative battles over the structure of their industry.

Life and health insurers probably launched the most extensive campaign. Coalition lobbying was especially important. (See Chart 1 on p. 10.) Proposed taxes on life and health benefits offered by employers, and on the inside buildup in cash-value life insurance policies, along with threats to annuities, IRA's and 401 (k) plans, were perceived as potential dangers to their business. The major insurance trade associations and individual companies worked independently and in coalitions to devise and execute state-of-the-art lobbying techniques (see box on p. 11).

Insurers argue that mutual company and customer interest helped make the effort successful. Companies reached out to their employees, customers and the public at large with the unsettling news that benefits and investments might be taxed. There was a significant response—one that helped to assure legislators who opposed such taxation of a broad constituency.

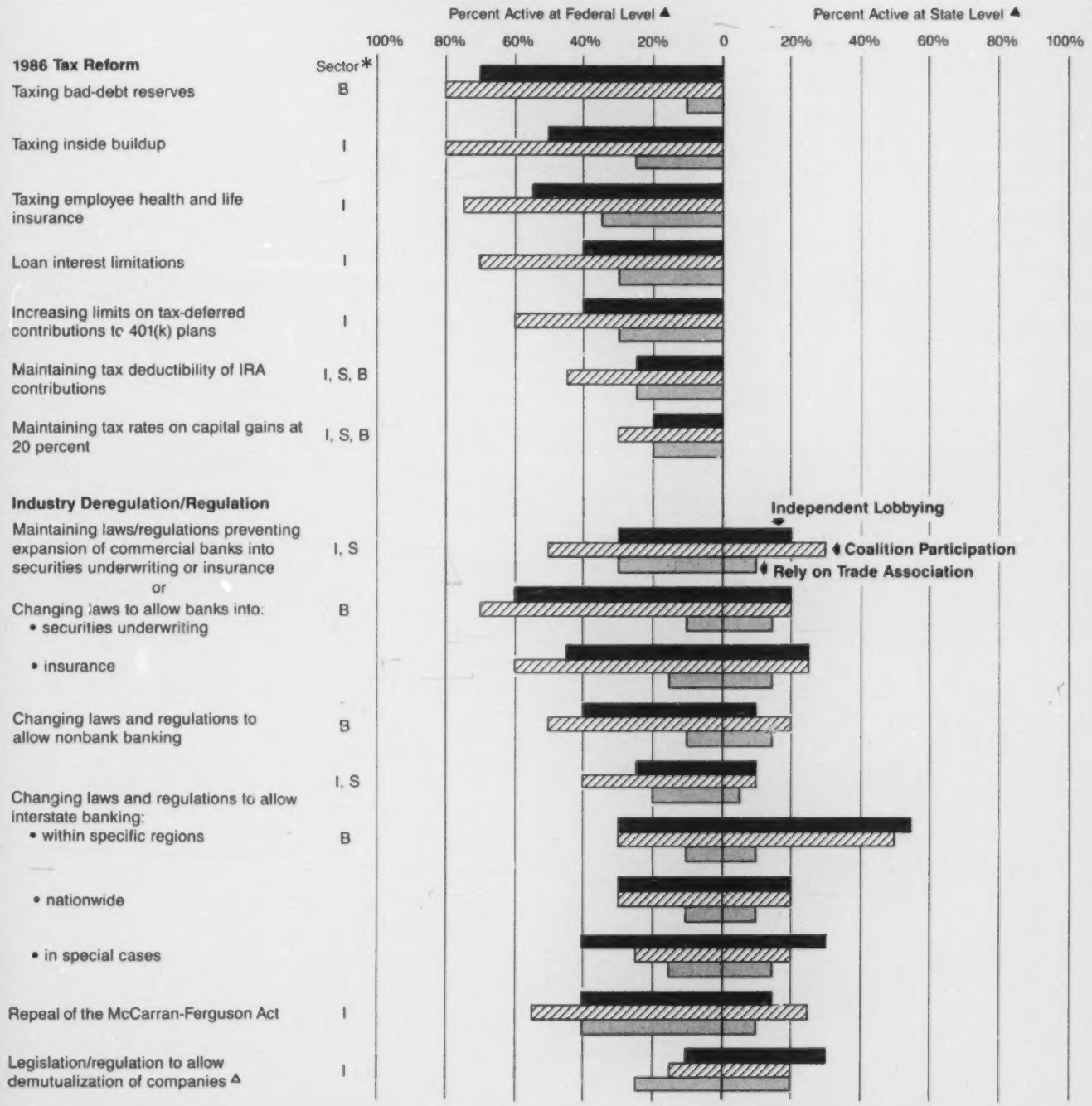
Some of the products that insurers and other financial service firms offer emerged from tax reform intact, but they lost their fight to retain certain industry-specific deductions or exemptions. Most financial service lobbyists say that tax reform did not end with the 1986 Act; they expect to be lobbying on that issue in 1987 and beyond.

Federal Legislation: Regulate, Deregulate or Restructure

Industry unity and grass-roots appeals are not characteristic of campaigns seeking further deregulation of the financial services industry. Battles have been fought by trade associations, as well as among individual companies and ad hoc coalitions.

Chart 1:

Lobbying by Financial Service Companies on Federal Taxes and Industry Regulation



*Key:

The number of responses varies, but (N) represents the average response.

B = Banking (N = 31)

I = Insurance (N = 26)

S = Securities and Diversified Financial (N = 6)

▲Percentages are rounded.

△Mutual insurance companies are owned by their policyholders. In recent years, some mutual companies have sought state permission to "demutualize" and convert to a stock company. States such as New York, Alaska and Hawaii prohibit such conversions; other states provide guidelines to insure that such conversions are in the best interests of the policyholder; while still other states have yet to address the issue.

Trade Associations

The battle lines for the financial services industry have been clearly defined by such groups as the Securities Industry Association (SIA), the Independent Bankers Association, the ACLI, and various insurance underwriter (agent) groups. Small bankers, such as members of the Independent Bankers Association, see "nonbank banks" as a serious competitive threat. (Nonbank banks either take deposits or make commercial loans, but not both—thus skirting the definition of a bank under the Bank Holding Company Act.) Large firms, such as Sears, Travelers and Merrill Lynch own nonbank banks. And, if commercial banks were allowed to expand their services into new areas, they would become competitors for securities brokers, insurance agents, and many insurers.

The nonbank bank issue has produced a schism within banking's major trade group, the American Bankers Association (ABA)—as has national interstate banking. Small banks oppose any federal legislation authorizing interstate banking. Concerned that acquisitions by large multinational banks in New York, Chicago, California or elsewhere might

Life and Health Insurers Take On Tax Reform

In 1985, life and health insurance companies and their trade associations launched a multi-faceted campaign to mold a wide cross section of people into an effective and vocal constituency. Key elements of the campaign included:

Central coordination and cooperation at the trade association level: Even before the release of the Treasury Department's plan for tax reform in November, 1984, insurance executives were aware that taxation of employee benefits was being considered. A CEO-level task force was formed jointly by the American Council of Life Insurance (ACLI) and the Health Insurance Association of America (HIAA). The staff for these two groups prepared lobbying kits and spearheaded initiatives as legislation evolved over the next two years.

Top Executive Involvement: In addition to participating in the task force, insurance company CEOs made the rounds on Capitol Hill, briefing Senators and Representatives who served on key committees involved with tax reform. Many CEOs also endorsed direct lobbying efforts by their own companies.

"Grass-Roots" Appeal: Insurance industry executives and lobbyists believed there was a natural "grass-roots" constituency that would oppose the proposals to tax employee insurance benefits and the inside buildup of interest on cash-benefit life insurance policies. Postcards reading "Don't Tax Insurance" were developed by the ACLI, which joined with HIAA-member companies and members of the associations for life and health agents, to launch a postcard campaign in March, 1985. They claim to have generated 1.6 million pieces of mail targeted at congressional members within three months.

Coalition Building: In addition to coalitions formed in Washington, several were formed at the state level—most notably in Connecticut, where many insurance companies are headquartered. This organizational effort allowed the industry to speak with one voice to members of Congress as well as to staff. When independent pollsters provided evidence that the public supported the industry's views, the ACLI and the HIAA held news conferences with other trade associations to dramatize these findings. Among the participating associations were: the AFL-CIO, National Consumers League, National Association of Manufacturing, and the American Association of Retired Persons.

Use of Media Technology: The lobbying process was carried out through editorial campaigns, television advertising, and screenings of a specially prepared film and videotape. Productions entitled "Worst Little Horror Story in Taxes" and "David and Goliath: Round Two" were shown in Washington and made available to companies that wished to show them to employees. (After the show, employees were sometimes given time to write to members of Congress.) In major media markets, the trade associations aired radio and TV commercials and held news conferences.

Extensive Involvement by Individual Companies: Large and small insurance companies supported the industry's educational and lobbying program in various ways. The following are two examples of the many efforts chronicled in a 1985 ACLI publication:*

"Federated Guaranty Life, a farm bureau company in Montgomery, Alabama, used its 290 service centers in the state as information resources, peppering them with posters and making plenty of postcards available. Most of the company's 685,000 policyholders responded, generating a letter-writing blitz to the Alabama congressional delegation."

"New York Life focused its informational efforts on its policyholders. The company sent two million policyholders a letter from the Chairman ... the first time the company reached out in this fashion on a legislative issue." The mailing included postcards addressed to members of Congress. Within two months of the mailing, the company received unsolicited letters from 500 policyholders. These were responses "thanking the company for bringing the tax situation to their attention and announcing that they have sent letters to their members of Congress. Many have requested additional postcards for distribution to friends and relatives."

*Council Review, September, 1985.

destroy the character of community banking, small banks prefer a state-by-state solution and they have prevailed. Federal legislation passed in 1987 seems to end the nonbank bank debate. In the next round of lobbying, the ABA may be a more unified and potent force.

As the debate on the structure of the industry continues, each side has taken advantage of legislative ambiguities to invade the other's turf. In recent battles over closing loopholes, individual trade associations representing securities firms, small bankers, and insurance underwriters have opposed large banks, both at the legislative level and in state and federal courts. Although large banks have lost many decisions in lower courts, they have generally been successful in appeals to higher courts.[4]

Grass-Roots Support

Unlike tax issues, questions about the scope of services financial institutions may legally offer are less interesting for consumers, making it hard to mobilize support. Bankers intent upon closing the loophole that allows nonbank banks to operate admit that this issue does not attract customer attention. Nonbank banks are not widespread, offer no easily perceivable threat to consumers, and may even be looked upon as a convenience.

Convenience may also be a selling point for large banks in their push to get broader powers. Banks and other large financial companies envision offering the consumer a one-stop shopping center for financial services. But according to government-affairs executives interviewed, the grass-roots appeal of this concept has yet to be widely tapped or even tested. Said one executive: "The issue we face is really the structure of financial services. I doubt that people really care about that. They care about the quality of the service we deliver."

The Legislative Score Card

Industry observers say that meaningful deregulation or reform of financial services must come primarily through legislation—not through action by regulatory agencies. Prior to August, 1987, no major federal legislation had been passed since the early 1980's. Laws passed in 1980 and 1982 deregulated the deposit side of banking, but banking executives are keenly interested in deregulation of the asset side: They want authorization to enter securities, real estate, and insurance markets. Higher percentages of banks than insurance or other financial firms report lobbying on industry deregulation issues independently and through coalitions at the federal level (Chart 1).

Other companies hope to take the debate beyond a discussion of banking deregulation. Early in 1987, a group of large banking, insurance, securities and commercial corporations (e.g., Citicorp, American Express, Sears, Merrill Lynch, and John Hancock) banded together to form the "Mayflower Group," a coalition that will lobby for a restructuring of the entire financial service industry.

The 100th Congress is already a focal point for contention over the future structure of financial services, but there are no sure bets on the outcome. Democrats remain in charge of House committees that oversee banking and commerce and have taken over key Senate committees. During the early months of 1987, new banking legislation was introduced in both houses. By July, a conference committee had agreed upon a bill, but this was opposed by the Reagan Administration, and a presidential veto seemed likely. However, Congressional leaders and administration officials worked out a last minute compromise, and the Competitive Equality Banking Act was passed by Congress in early August, 1987. Although this legislation bans the creation of new nonbank banks, it does allow financial and commercial firms to acquire insolvent savings and loan units with assets of $500 million or more. It also places a temporary ban on new regulatory rulings that would expand the powers of banks (into securities, insurance and the like). The moratorium extends to March, 1988. In the interim, bankers are likely to lobby aggressively to lift the ban and for repeal of the Glass-Steagall Act. Many securities and insurance lobbyists may try to block this effort and to extend the ban indefinitely.

Safety and Soundness Across the Industry

As banks, insurers and securities firms challenge one another in the various arenas, onlookers are subjecting their activities to greater scrutiny. Legislators and regulators question whether insurers should be placed more securely under federal antitrust laws, whether financial planners need more oversight, whether corporate takeovers have abused the securities laws, and whether banks are risking too much in their quest for improved profits. To address most of these issues, companies strongly emphasize coalition lobbying (Chart 2).

Banks: Too Much Risk?

In 1984, banking became embroiled in the "too big to fail" controversy when the Federal Deposit Insurance Corporation (FDIC) purchased a large portion of the stock of Continental Illinois Corporation (a bank holding company) and installed a new board of directors. Small banks question whether they would be accorded the same treatment or be allowed to fail. The move also brought to the surface the prickly issue of the share of FDIC insurance paid by the banks. Why should the premiums of well-managed banks increase as more banks fail, some bankers ask—why not make premiums risk based? This issue spurred independent lobbying efforts among almost a third of the banks surveyed for this study and inspired coalition activities by about half (Chart 2).

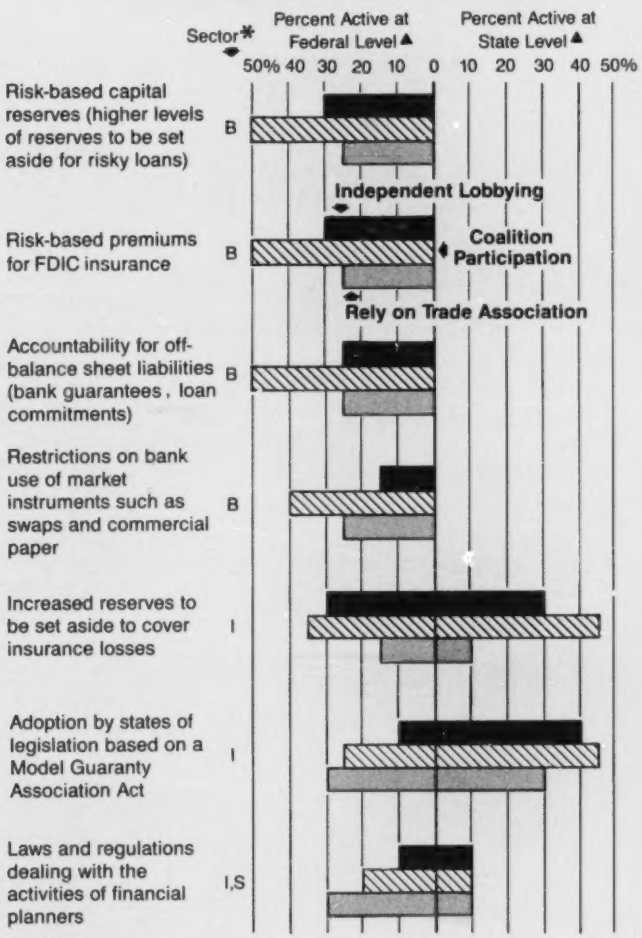
[4] For more detail on issues, see Kathryn Troy, *Reshaping Financial Services*. The Conference Board, Research Bulletin No. 213, 1987.

While those who favor deregulation of banking argue that competition will benefit both the industry and the public, some observers take a less rosy view. They believe that competition is forcing banks to pay artificially high interest rates to attract deposits. Some say that with the cost of money so high, banks are making increasingly risky investments in order to maintain acceptable profit levels. The Federal Reserve, the Comptroller of the Currency, and some legislators suggest that banks should set aside reserves to cover losses based on an assessment of the level of risk in their asset portfolios.

Such risk-based capital requirements would have a major effect on large banks explaining, in part, why over half of the banks participating in this study report being active in coalitions lobbying on this issue (Chart 2). Whether individual firms oppose or favor it depends on their size and the level of risk in their portfolios. Over half the banks also note that they are members of coalitions that lobby on "off-balance sheet" activities, such as loan commitments, swaps and letters of credit (Chart 2).

Chart 2:

Lobbying by Financial Service Companies on Issues Related to Safety and Soundness


Sector*
Percent Active at Federal Level▲
Percent Active at State Level▲
50% 40 30 20 10 0 10 20 30 40 50%
Risk-based capital reserves (higher levels of reserves to be set aside for risky loans)
B
Independent Lobbying
Risk-based premiums for FDIC insurance
B
Coalition Participation
Rely on Trade Association
Accountability for off-balance sheet liabilities (bank guarantees, loan commitments)
B
Restrictions on bank use of market instruments such as swaps and commercial paper
B
Increased reserves to be set aside to cover insurance losses
I
Adoption by states of legislation based on a Model Guaranty Association Act
I
Laws and regulations dealing with the activities of financial planners
I,S

* Key:
The number of responses varies, but (N) represents the average response.
B = Banking (N = 30)
I = Insurance (N = 26)
S = Securities and Diversified Financial (N = 6)

▲Percentages are rounded.

Insurers, Competition and Antitrust

Although insurance companies are primarily state regulated, in 1986 national attention was drawn to what was often called a "crisis" in insurance. This crisis, related to pricing and availability, was actually restricted to property and casualty insurers, but by mid-year Congressional activity was causing alarm in the life insurance industry as well. One of the more wide-ranging bills proposed in Congress would have repealed the McCarran-Ferguson Act, which exempts insurers from many of the provisions of the federal antitrust law. Over half the insurers surveyed report recent coalition lobbying on the McCarran-Ferguson issue at the federal level (Chart 1). McCarran-Ferguson remains on the agenda of the 100th Congress.

The 11 major property and casualty insurers who supplied data for this survey actively lobby on property and liability issues at both state and federal levels and most combine independent and coalition activites. Virtually all have lobbied both independently and through coalitions at the state level on the issue of capping court awards in liability cases. All have been active at both levels on the specific issue of punitive damage awards by courts. Most have lobbied directly at the state level on proposals to cap the premiums customers pay for property and liability coverage.

Financial Planning: Oversight Needed?

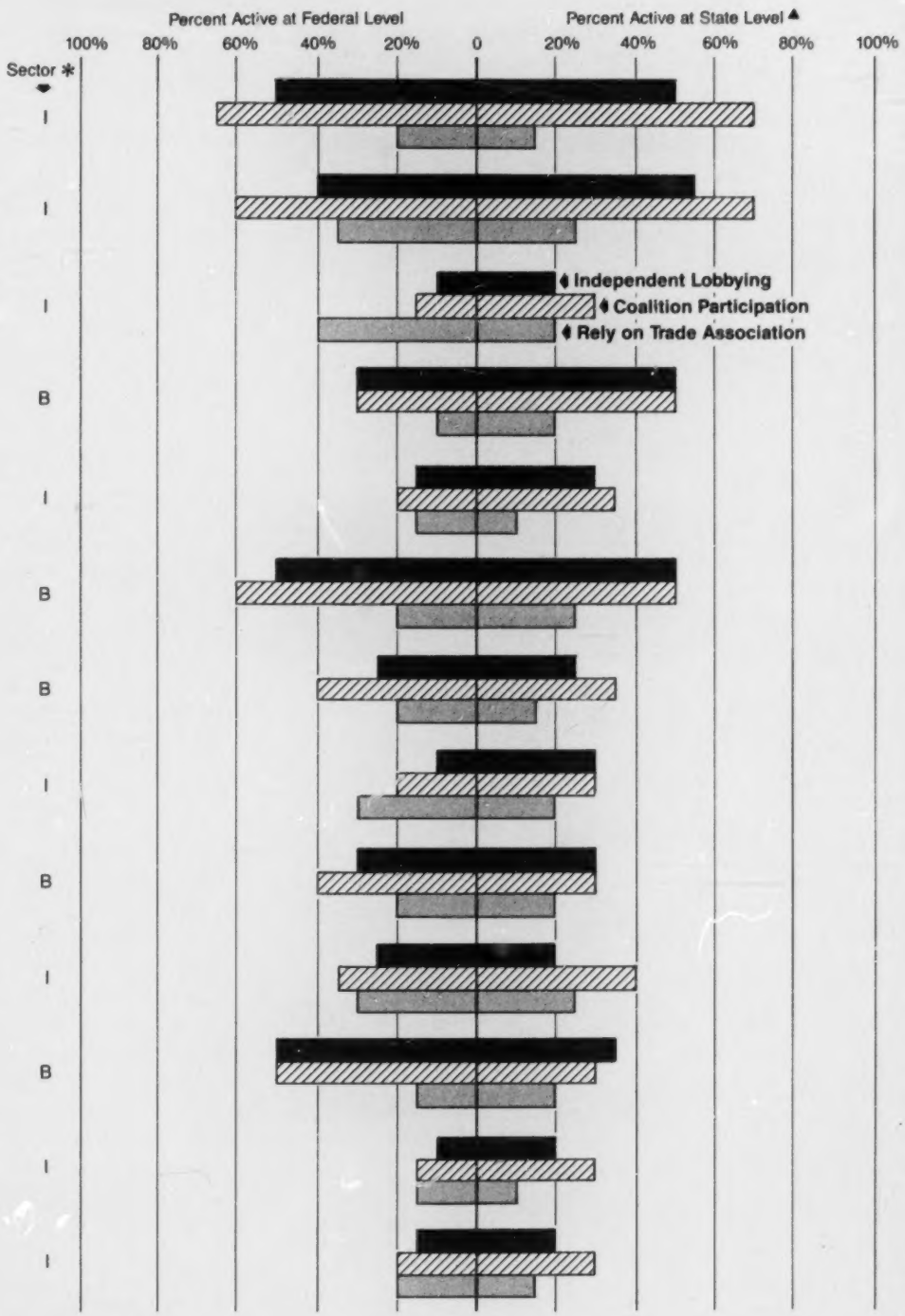
Financial planning is generally considered a growth industry, but there is disagreement about whether it needs more regulatory oversight. Congress questions the SEC's ability to regulate the profession, but the SEC, the securities industry, and groups representing insurance agents resist the idea that additional legislation is needed. Rather, they support stronger enforcement of existing regulations and more cooperation between the federal and state governments. About 20 percent of the insurance and securities companies participating in this study worked in coalitions to lobby on the issue of increased regulation of financial planners; almost a third saw it as an issue to be addressed by their trade associations (Chart 2).

Issues at the State Level

For insurance companies and banks participating in this survey, two areas appear high on the list of concerns at the *state* level: reverberations from insolvent insurers and the "ex-

Chart 3:

Lobbying by Financial Service Companies on Consumer Issues



Risk Classification:

Laws/ regulations requiring that insurance companies provide unisex coverage — I

Efforts to prevent use of special medical tests to determine risk of insuring potential customers (e.g. the AIDS antibody test) — I

Laws/regulations to allow caps on health coverage for expensive medical procedures (e.g. dialysis, organ transplants) — I

Cost:

Affordable banking services for low income customers — B

Efforts to make insurance more widely available to low-income customers — I

Regulation/capping of credit-card interest charges — B

Closer alignment of bank charges for consumer credit, business loans and mortgage rates to interest paid to depositors — B

Repeal of anti-rebating laws — I

Disclosure:

Increased disclosure/public posting/explanation of bank fees, service charges and availability of funds to local customers — B

Efforts for greater disclosure of prices/costs of insurance to consumers — I

Service:

Establishing a standardized check-holding policy (to govern the period before funds are available to the depositor) — B

Calls for improved claims service — I

Efforts to assure that large claims be paid as a lump sum, rather than as installments over time — I

* **Key:**
The number of responses varies, but (N) represents the average response.
B = Banking (N = 30)
I = Insurance (N = 25)

▲ Percentages are rounded.

pansionist" desires of large money-center banks. Not surprisingly, at least 40 percent of the companies report independent or coalition activity, or both, on those concerns.

Insurers: Loss Reserves and Bankruptcy

At the federal level, issues of risk-based capital and deposit insurance premiums have sparked controversy in the banking industry. Insurers face similar challenges at the state level. Following a particularly sharp curve in its business cycle in the early 1980's, the property and casualty industry was reporting significant losses by 1985, raising questions about whether loss reserves were sufficient in some firms. State regulators also worried about the risky practices of some life insurers, such as promising customers very high rates of return early in the life of new variable-rate investments. As Chart 2 shows, moderate proportions of companies participating in this study reported independent and coalition lobbying at both state and federal levels on issues related to loss reserves.

When an insurance company goes bankrupt, one immediate question is: What happens to the customer's investment? Guarantee associations met this challenge in some states, but as the number of bankrupt insurers climbed in the early 1980's, consumers and solvent insurers became less satisfied with that mechanism. Over the past few years, the National Association of Insurance Commissioners (NAIC) worked to develop model legislation for state guaranty associations. More than 40 percent of the insurers in this study have lobbied in coalitions on this issue and nearly as many have lobbied independently (Chart 2).

States' Rights and National Banking

As with other major banking issues, federal legislation that would allow banks to expand nationwide has been stalemated in Congress. "Congress doesn't want to act for two reasons: It views this as essentially a states' rights issue and there is no centralized drive for it in the banking industry," says a government-affairs executive. However, while national banking may be in limbo at the federal level, interstate and regional efforts proceed apace. More than 35 states allow banks from some other state or states to make acquisitions within their jurisdiction.

Among the participating banks, about a third are actively lobbying on the national banking issue at the federal level; more than half are active on the state level (Chart 1).

The Consumer Scene

"Consumers have become much more a marketing than a public affairs issue," observes AEtna's Vice President, Communications. "People talk about this business being 'market-driven'. Anyone who really means that will get out there and identify what customers want *before* they demand it." Executives at Sears' Dean Witter say this is just what they are doing. "We generally start out with consumer research and try to meet a need before it becomes a consumer issue—we offer low-cost checking services at our savings banks and our credit card has no annual fee because consumers said that was more important to them than interest costs," comments the company's government-affairs executive.

There is sufficient consumer activity to keep most government- affairs executives and corporate legal counsels on their toes, however. In the insurance industry, some groups are challenging the fairness of the risk classification system used to establish the price of insurance premiums. Banks are hearing complaints about the level of interest they charge on credit card balances and the limited availability of check-cashing and basic checking services to low-income individuals (especially the elderly). Companies report dealing with these issues as well as with demands for more disclosure or with complaints about the fairness of rates and payments for financial services (Chart 3).

Chapter 3
Communications

Given the change and competition in financial services, it is not surprising that communications executives interviewed for this study describe a hard-nosed environment. "Marketing or bottom-line orientation," "program targeting," "communications strategy," and similar phrases pepper their conversations. Some are questioning, however, to what extent their profession may have to adjust to a more competitive marketplace: Should communications executives stay removed from the sales and marketing fray—or is it their job to sell, pitch, and publicize the company and its products?

Responsibilities

Senior communications executives report a wide range of responsibilities. In 85 percent of the major financial service companies participating in this study, these executives are responsible for at least four closely related functions. Most often, these are:

- public information and media/press relations
- employee communications
- corporate advertising
- community affairs

In at least one third of the companies, the communications executive also attends to one or more other functions: corporate contributions, shareholder relations, or consumer affairs. (See Table 3 and Exhibit 2.)

Overall, executives report an easy working relationship among those within communications or closely related to it. Nevertheless, about a quarter of the banks and diversified companies surveyed say that competition with other staff functions has increased; about 40 percent of responding insurance companies concurred. For example, several communications executives spoke of recently adding marketing research to their responsibilities; in other cases marketing was removed from the communications roster. If not already a part of the function, government relations, community affairs, and contributions may also play a part in the tug-of-war that will ultimately determine the scope of communications within the financial services industry.

Contact with Line Executives

Communications executives who work within a decentralized corporate structure typically maintain informal contacts with others in line and staff functions, sometimes sitting on one another's committees and generally placing themselves "on call" for consultations. In centralized structures, the interaction is more intense, primarily because the communications function may provide publicity, advertising, or marketing support to the line—often performing as an in-house agency for its line "clients." Line executives are demanding more advertising and publicity. Says Wells Fargo's communications executive: "We are doing much more marketing-related publicity and promotional activity. We can help the line managers on projects for much less than they would spend on advertising."

Table 3: Responsibilities of Senior Communications Executives in Financial Service Companies

Program Area	*Percent of Executives With Responsibility* (N = 80 Companies)
Public information; Press/Media relations	90%
Employee communications	75
Institutional advertising	60
Community affairs	50
Contributions	45
Shareholder relations	40
Consumer affairs/relations	35
Investor relations	30
Direct mail/response advertising	25
State government relations	25
Federal government relations	20

* Percentages are rounded.

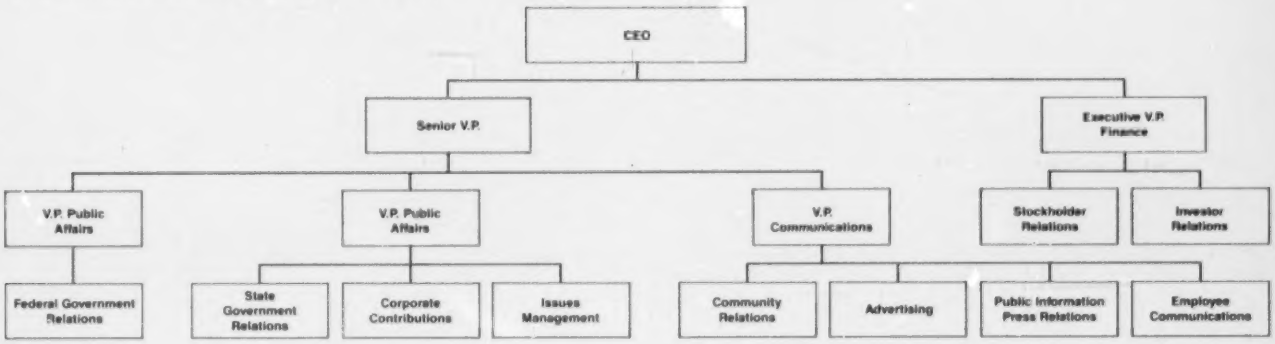
Communications professionals also keep in contact with line managers by referring press inquiries to them. Most of the executives with press and media relations responsibilities said in interviews that it is rare for them to speak for the corporation—more often, they try to connect the inquirer to an executive who is directly responsible for an activity.

Over 80 percent of the communications executives surveyed said that their interaction with line operations or business units increased from 1983 to 1986, as has their efforts to demonstrate that their activities are relevant to corporate business objectives (see Chart 4, p. 18). BankAmerica's Senior Vice President, Corporate Communications explains: "I consider this a line function. We need to understand every day that what we are doing advances the interests of the corporation ... not that it gives us a warm feeling or satisfies our creative urge." Comments another executive: "Sixty per-

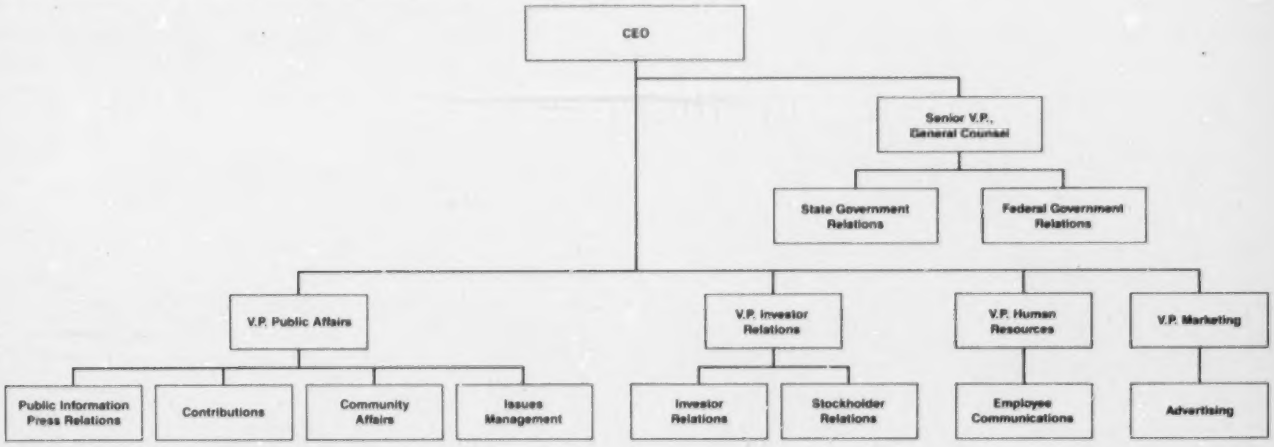
Exhibit 2

Organization of Corporate Communications

A. Most Communications Activities Report to a Single Senior Executive



B. Or, Communications Activities May Be Divided Among Several Executives



cent of what I do is tied to the line. I meet constantly with company executives throughout the state to help solve communications problems. I want to be in the trenches."

Mandate and Strategy

But other practitioners describe a more narrow mandate. An executive of a regional bank states: "We're trying to communicate on issues and on problems and opportunities. More and more, product publicity and related matters are becoming part of the line operations—that's really self-promotion." An executive of a diversified company agrees: "We're not so much in sales and marketing as in information and communications." But an exasperated executive at another diversified company questions the whole debate: "I think it arises from a desire in some people to become policymakers rather than publicity generators."

Ultimately, of course, the answer depends on how senior management views the communications function.[1] Although three-quarters of the survey respondents report that top management views their function as integral to the firm's business strategies, in interviews and open-ended survey responses a sizable minority of practitioners express anxiety. Many appear to be working hard to prove just how "market-driven" and "bottom-line oriented" communications can be.

Survey data reinforce the impression that top management expects "bottom-line relevance." Three out of four survey participants indicate that in the recent past—from 1983 to 1986—they increased their efforts to demonstrate that their activities are relevant to the company's business objectives. At least two out of three participants expect their efforts and management's acceptance to increase in the near future (1987 to 1990). (See Chart 4.)

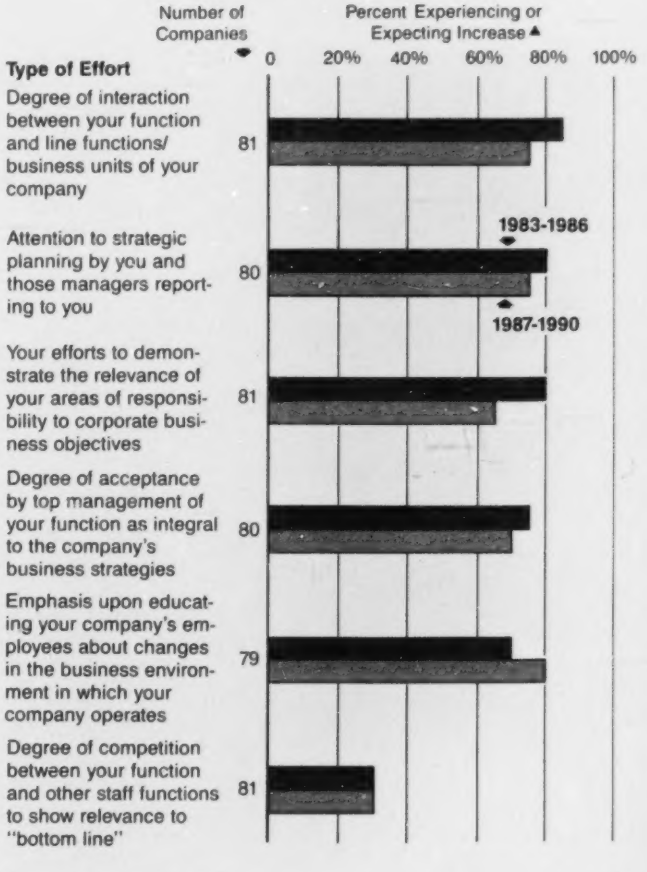
Communications Spending on the Rise

Whether in banking, insurance, or diversified financial activities, the majority of companies surveyed agree that resources devoted to communications have increased and will continue to do so (Chart 5). Some companies have created new departments or substantially expanded existing ones. For example, in 1985, Great Western Financial Corporation, a West Coast thrift institution that is diversifying into real estate and consumer finance, created the position of Senior Vice President, Corporate Communications. The department has since grown from one to five full-time professionals. "To remain competitive in a deregulated environment, the company recognized that it had to communicate much more actively," says one department manager. In other companies, some of the increase in staff in the past few years resulted from consolidating disparate areas of external relations into one communications unit.

In recent years, there have been widespread increases in resources for *public information* and *media relations* in financial services: Two out of three survey participants report increases, while only six percent report decreases. Spending on *employee communications* was hiked in more than 65 percent of the firms. This reflects, in part, the tendency of many service organizations to view employees as a crucial resource. To get results, "employees must buy into the company's strategies," observes a banking executive. Almost 60 percent of the banks surveyed emphasized this area in the recent past, and about the same percent expect to sink more funds into it in the near future. Insurers and diversified companies appear less apt to expand spending for employee communica-

Chart 4:

Internal Priorities of Communications Executives 1983-1990


Number of Companies
Percent Experiencing or Expecting Increase▲
0
20%
40%
60%
80%
100%
Type of Effort
Degree of interaction between your function and line functions/ business units of your company
81
Attention to strategic planning by you and those managers reporting to you
80
1983-1986
1987-1990
Your efforts to demonstrate the relevance of your areas of responsibility to corporate business objectives
81
Degree of acceptance by top management of your function as integral to the company's business strategies
80
Emphasis upon educating your company's employees about changes in the business environment in which your company operates
79
Degree of competition between your function and other staff functions to show relevance to "bottom line"
81

▲ Percentages are rounded.

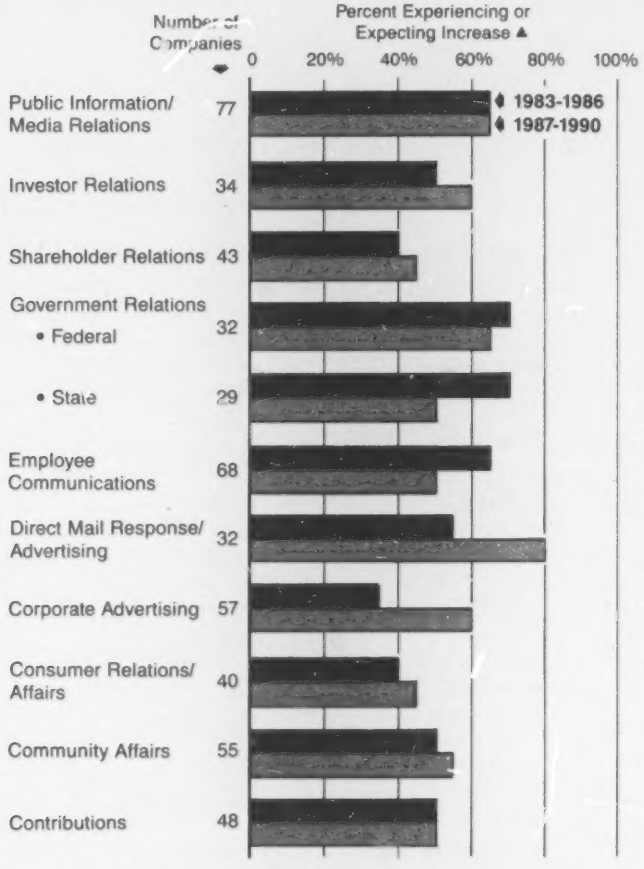
[1] Data supplied for the Board's recent study of the organization of the public affairs function indicates that in the financial service industry 57 percent of the senior executives who have communications responsibilities report to the President or CEO. (Lusterman, 1987.)

tions in the future. About 90 percent increased funding of this area from 1983 to 1986, but only about 40 percent plan increases for 1987 to 1990. This probably reflects a levelling off more than a shift in emphasis, however; few expect actual decreases.

Half of the respondents, primarily banks, have increased resources for *investor or shareholder relations*. Looking toward the future, 70 percent of the banks expect to allocate more to investor relations over the next three years. One reason cited: "It is becoming increasingly important to attract capital," says an executive of a bank that recently made a major acquisition. More than half of the insurers expect increases in policyholder/shareholder relations in the near future.

Chart 5:

Increased Resources for Public-Affairs Programs 1983-1990*



* Those companies not experiencing recent increases or expecting them in the future generally reported a steady-state scenario. The only notable variations occurred in the period from 1983-1986 when 25 percent of the companies reported decreases in resources for corporate advertising and 14 percent reported decreases in resources for corporate contributions.

▲ Percentages are rounded.

A smaller proportion of the firms, just over 35 percent, have recently increased their investment in consumer relations. This lower level may reflect the relative hiatus in consumer activism reported by government-relations executives. But study participants may be anticipating some new focus on the individual consumer—45 percent plan to increase resources for consumer relations in the near future.

Two areas in which a substantial percent of survey participants expect to increase spending are *corporate* and *direct mail advertising*. Some of the advertising may be directed to institutional customers, but AEtna's communications executive stresses that the consumer is becoming more important to insurance marketing: "We are positioning ourselves as a top-quality insurance company, but it is more expensive and difficult to do as the advertising ante goes up and it becomes more difficult to be heard. We need to be working now to identify critical consumer constituencies and conceive of programs and plans to build relationships with them today that will pay off tomorrow."

More than half of the 57 companies that report corporate advertising say resources for this area will rise over the next few years. About one-third of respondents report increases in the recent past. Fewer companies are involved in direct mail advertising; but most of the 32 companies that use it say that their investment will increase from 1987 to 1990. Just over half boosted support for this area in recent years. Insurers lag behind the banks in direct-mail marketing—almost 70 percent of banks, compared to 40 percent of insurers, had recently increased direct-mail funding. More banks and diversified companies expect to increase corporate advertising than insurers.

Coping With Lean Budgets

Chicago's Continental Illinois, which made headlines in 1984 when the FDIC rescued it from a threatened collapse, has since operated its communications activities "on a very lean basis," according to its communications executive. "Each person has a targeted responsibility, and we operate as efficiently as a corporation our size can to still get the job done." As the company's condition improves, resources for advertising and media relations are increasing modestly, he reports.

Less drastic financial binds may also prompt cutbacks. Another Chicago bank, Northern Trust, experienced several years of belt tightening and a change in top management before its financial picture improved. During that time, advertising was cut back but is now being restored. Public information and media relations continue to be emphasized but are performed with fewer people at less cost and with "a sharper focus."

Resuming communications programs when the balance sheet improves can be of strategic importance. Norwest, a banking and financial service corporation in Minneapolis, and its neighbor, The St. Paul Companies, a property and

liability insurer, say their companies adopted relatively low profiles at various points in the 1980's while undergoing profit turnarounds. The St. Paul Companies' senior public relations officer notes, however, that press and media relations were important as the company emerged from the downturn: "We wanted to let our constituencies know what we have accomplished, how we have positioned ourselves and what we are doing to avoid this kind of occurrence in the future." Despite its occasional low profile in the 1980's, Norwest continued "an aggressive marketing and product advertising campaign" and launched a corporate identity program. (See box.)

Planning

While budgets may be rising, even profitable companies keep a tight rein on expenditures for communications. Annual plans are generally required and scrutinized by top management. Communications executives say they must be prepared to answer such questions as: "Is this something that needs to be done? Do we have the resources to do it right? Will we receive some benefit? Will it change anything?" Moreover, no matter how broadly or narrowly defined their mandate, most executives observe that they usually coordinate or consult with executives in both staff and line functions.

The majority of communications executives participating in this study believe that strategic planning is growing and will continue to grow (Chart 4). Although some companies have well-established, comprehensive processes, planning is a relatively recent development in others. Interviews reveal a potpourri of planning practices, not always strategic in character and varying in formality. In some companies, planning is restricted to one or two areas of communications,

Norwest Refines Its Image

In the late 1970's, executives at Northwestern Bancorporation recognized that changes in the operating climate needed to be met with changing strategies, according to the firm's Vice President, Communications. Deregulation in the early 1980's heightened competition, and by 1983 the company, which is headquartered in Minneapolis and owns banks in Minnesota, Wisconsin, Nebraska and the Dakotas, decided it was time to consolidate its operations and to present a unified image. It adopted a new name, Norwest, for all of its banks. "It became important for the little bank on the corner to let people know that it was part of a larger organization that could compete with a Merrill Lynch or other large, diversified companies," explains its communications executive.

Accompanying the name change was an internal communications campaign aimed at creating a common sense of corporate identity among employees. Through a newly developed, system wide publication and frequent videotaped messages from the CEO, employees were told about the corporate reorganization and the changes in the industry that necessitated such a move. Efforts were made to bring the issues down to a personal level with discussions of "how these changes affect you." Employees with direct customer contact were specially trained to make them more sales oriented, and an advertising campaign was launched in several major company locations (primarily in a seven-state area in the upper Midwest). Themes were service oriented and emphasized that Norwest Corporation was more than a bank. The message was: "Banking...and a whole lot more."

Taking the Next Step

By 1985, the company was considering a broader corporate advertising effort, one that required major research. Its objectives were to determine what characteristics customers considered most important in a bank, to learn how customers rated Norwest based on such criteria, to develop a profile of the company's current customers and "prime prospects," and to identify strategies that might turn prospects into customers. An outside research firm conducted interviews with retail customers as well as CEO's and CFO's of commercial mid-sized companies in Norwest's six key markets.

The company found that its loyal customers far outweighed potential defectors and that its prime prospects more than equalled its customer base. It also found that the characteristics most important to its customers tended to be people rather than product oriented. The top ten were: being well-managed; treating customers with respect; responding promptly to problems; staying with the customer through good and bad times; operating efficiently; looking out for the customer's interests; paying competitive interest interest rates; extending courtesies to long-time customers; keeping money in the community; and having knowledgeable personnel who offer choices. Interviewees chose adjectives such as "modern, aggressive, high tech, a leader, classy, futuristic, innovative and young" to describe Norwest.

Armed with its research findings, Norwest developed a "Campaign for Excellence" built around a service theme. The advertising component, launched in May, 1986, uses television, radio and print to reach retail customers in six states, telling them "We'll work with you", "We'll do our best", "We know the way". (See Exhibit 4.) Newsletters kept employees abreast of research findings and of the advertising campaign as it evolved. Training sessions for key employees accompanied the campaign kick-off, and more extensive training is planned. Ultimately, the company hopes to tailor the advertising, marketing and training aspects of its campaign to every community in which it operates.

such as corporate advertising or internal communications. In others, department executives require plans from managers within their own operation but do not formally integrate these schemes into the firm's master plan. Some executives think that their firms have too much of a good thing: "Do we plan? We have strategic planning, budget planning, capital planning and management planning ... everything is a process!", said one banker.

Does the emphasis on planning in communications mean an end to fire-fighting? "This is almost a totally 'plannable' function," says BankAmerica's corporate communications executive. "On an annual basis, we take the operating plans of our divisions and develop communications plans in tandem with them. We lay out and perform against monthly and yearly operating plans. If you do this, you are getting done what you want to get done rather than fighting fires." One example the executive offers is the company's preparation for its 1986 annual meeting. Plagued with record losses for the past several years, the company anticipated heated questioning by stockholders. In preparation, it developed a videotape in which young, "competent" employees working on major banking problems describe the situation and tell the audience what actions they are taking. The approach was successful in helping to diffuse emotion at the BankAmerica meeting, says its communications executive. Although there are occasional surprises, including takeover attempts, "Once we have been alerted, we can plan for those too."

The St. Paul Companies' Senior Public Relations Officer agrees that the function can be planned: "We do annual plans and long-range plans—we have a pretty complete process," he says. "It is easier to do planning now," says Chase Manhattan's Senior Vice President, Public Affairs. "In the past, when it seemed that we made money naturally, everything was important. Today the key point is that the company has to know what it wants to be and the areas in which it wants to be recognized. Everybody must agree and be consistent."

Communications executives in companies such as AEtna, Northwestern National Life, Northern Trust Company, and Norwest Bank say that planning was introduced into their operations within the past few years as a result of major departmental reorganizations or changes in corporate management. IDS Financial Services, for example, traces its increased emphasis on planning to its acquisition by American Express.

Compensation at the officer level is linked to performance against plan at Northern Trust. Successful plans are those that demonstrate a close fit with the corporate master plan. The company's public relations executive says planning has given her operation more direction and has resulted in a revamping of some areas (e.g., employee communications) and in an expansion of certain activities (e.g., servicing requests for speakers).

Press and Media Relations

In dealing with the *press and media*, more than half of the firms studied stress two areas: Promoting their companies' new image or products and disseminating information about their firms' business and key personnel. Roughly four out of 10 executives also emphasize communicating their companies' stand on issues, while about a third stressed explaining financial downturns or other unfavorable developments in their companies. (See Table 4.)

Since many of the companies studied are growing rapidly and diversifying their product lines, they report few problems attracting press or media attention. Says Metropolitan Life's Director, Corporate Communications: "Acquisitions are making us a different company. The kind of news we promote is broader—it might appeal to a real estate, health or international business editor or be pitched toward personal finance ... Also, the media comes to us more frequently."

Table 4: Purpose of Recent Press or Media Strategies

Purpose of Strategy	*Amount of Emphasis*		
	A great deal/Much	*A moderate amount*	*Very little/ None*
	Percent (N=80 Companies)*		
Promoting a new or broadened company image or expanded lines of products/services	55%	20%	10%
Informing the press about the company's major business emphases and key personnel	55	20	10
Explaining to constituents the company's stand on key regulatory, legislative or consumer issues	40	20	25
Explaining negative financial result or other unfavorable developments in the company	30	20	30

*Percentages are rounded.

(In the past few years, the company has added to its basic life and health insurance business with acquisitions that include Century 21 Real Estate Corporation, a real estate sales company; Corporate Health Strategies, a health data analysis company; and Albany Life Assurance Co. Ltd., a London-based life insurance company.)

Other communications professionals describe similar drives to focus attention on their firms' products. Although IDS Financial Services, an American Express subsidiary, has a fast-growing insurance operation, it is positioning itself more broadly as a financial-planning services company. Its communications staff works extensively with the field to help planners and executives get their stories told and to make the company's name prominent in the local media. "If any major paper does a feature on financial planning, we should be included in it at least 65 to 75 percent of the time," says one of IDS's communications executives.

AEtna is also focusing on field support but is positioning itself squarely in the insurance business. "Within the past four years, we have built marketing/public-relations support teams for each of our insurance divisions. They create public relations programs directly in support of the business and marketing needs of our clients. For example, we are developing a public relations program to build rapport with a key customer group—older Americans," says AEtna's Vice President, Corporate Communications.

Banks report similar press-related activities—overall, "a more pushy, aggressive approach," in the words of one East Coast executive. For example, Wells Fargo's communication's operation assigns staff members to each line group. During the 1987 marketing season for *Individual Retirement Accounts* (IRAs), the staff coordinated interviews with the Bank's IRA representatives on short notice. The company received TV, radio and print coverage statewide.

"Market-oriented" communications is a common theme. Chase's Senior Vice President, Public Affairs, says that the company is using that tactic in cultivating the press as it moves into investment banking. "We have to behave as if we were a tiny institution trying to become visible," he explains. At Security Pacific, press and media relations forms the cornerstone of the communications effort: "Our model is to operate as an information office...With so much negative news about banks, we need to differentiate ourselves from the problems and indeed from the successful banking firms. We focus on the priorities and expertise of the company...We have a reputation for being open and responsive," says the firm's Senior Vice President, Corporate Communications. The press relations group fields about 200 calls per month from reporters and generates about 130 contacts a month through "pitches" for interviews. The payoff? "The only way to get to members of the press when you want them is to play it their way all of the time. We help them to get more accurate information about our industry. When we have our own ax to grind, we can get a hearing."

Disclosure

Overall, the executives believe that their companies have a good rapport with the press and that their management is more willing to cooperate with reporters. "For a while there was a tendency toward investigative reporting by the press, which is somewhat tempered now," comments Shawmut Corporation's Senior Vice President, Corporate Communications. "The trend on both sides is to be more open and cooperative." Says an IDS executive: "We have a standing rule: Never say 'no comment' to the press. If we can't comment for some reason, such as litigation, we explain."

Even companies that have suffered financial downturns agree that disclosure is the best policy. "You don't want to go around encouraging people to write about how 'not good' your situation is," remarks one banking executive. "But we have granted interviews that we would rather not have granted. We want to keep lines of communication open and to be seen as forceful and helpful. And, if there are opportunities to get credit for something, we go for it." Says another: "We get 20 to 25 press calls per week, and we answer 99 percent." BankAmerica's financial turmoil made headlines for several years, and yet, in a recent poll in which business editors rate major U.S. corporations on the professionalism of their press relations, it ranked among the top five companies, behind Ford, General Motors, AT&T, and Johnson & Johnson. Three criteria were used in the rating: access to top management, prompt response to inquiries, and sense of news judgment.[2]

Employee Communications

Change, diversification, geographic expansion, and financial misfortune create a need for new, more sophisticated ways to inform and educate employees about the company, its mission, and the challenges it faces. Survey participants say that *resources* devoted to this effort have increased and, for the most part, will continue to do so. Moreover, a large majority say that educating employees about changes in the business environment was *emphasized* over the past few years and will continue to be in the near future.

There are some indications that employee communications are focusing more on business-related, "educational" content:

- "We want to give our employees a broad understanding of our operation. There is so much change in the industry, we have to prepare them for a transformation from being order-takers to being able to cross sell products," comments the Manager, Public Relations at Great Western Financial Corporation.
- First Bank System of Minneapolis needed to meld its 76 banks in six states under one banner: "The banks were

[2] See "Business Editors Rate Corporate Public Relations." *Public Relations Journal*, December, 1986.

virtually autonomous up to six years ago. We had to build loyalty to the entire company as well as to an individual bank," says its communications executive.

- "We did not do away with the 'homier' communications, but we are presenting them in different formats, such as bulletin boards." The formal communications vehicles are now used for company matters, policy discussions, and community activities, notes Northern Trust's Director of Public Relations.

Although employee magazines and newsletters prevail, executives interviewed also report frequent use of audio and video tapes. "The business is more complex, the staff is larger, it is spread geographically, and it is more mobile. We want to improve performance and make employees feel a part of the corporate whole. Since the Chairman can't get out to see everyone, we prepare a quarterly videotape. And we do special ones for major announcements," says Shawmut Corporation's Senior Vice President, Corporate Communications.

Metropolitan Life also prepares quarterly video productions for employees. About 20-minutes long and produced in a news-program format, these tapes are distributed to each department in the company. Department heads decide when and how to show the tape: at a staff meeting, before working hours, at lunch and so on. Use of audio cassettes is another possibility—BankAmerica uses them to update its managers on key issues.

Companies also involve employees in the political process as, for example, through PACs, letter writing campaigns, and public speaking assignments. Communications vehicles include newsletters, information packets to support campaigns, and briefing books on major issues. In some cases, managers are trained in public speaking or media skills so they can act as company spokespersons in their localities. (See Exhibit 3 for a sampling of employee communications vehicles.)

Exhibit 3

Employee magazines from (clockwise from top right) The St. Paul Companies; Metropolitan Life Insurance Company; American Express Company; Meridian Bancorp, Inc.; Security Pacific Corporation; The Liberty Corporation.

Employee newsletters from (clockwise from top right) Wells Fargo & Company; Norwest Corporation; Great Western Financial Corporation; City National Corporation.

Building and Polishing the Corporate Image

In an environment in which banks, insurers, securities and diversified financial firms are becoming more alike, it is crucial for companies to find ways to stand out. Whether in public relations or corporate advertising, participating executives place high priority on communications that heighten awareness of the company and separate it from its competitors. To some extent, they hope to use the company's image to sell its products.

Although corporate advertising, employee, shareholder, investor, press and media relations each offer opportunities to present the new corporate personna, many firms also use other public relations techniques. They may underwrite public television and radio programs or sponsor special conferences, museum exhibits, sports, concerts, or other social events. The shape of corporate headquarters buildings (such as those of Transamerica or Citicorp), or a distinctive cor-

porate symbol (the Traveler's umbrella, Wells Fargo's stagecoach), may help to communicate the corporate image.

Corporate Advertising

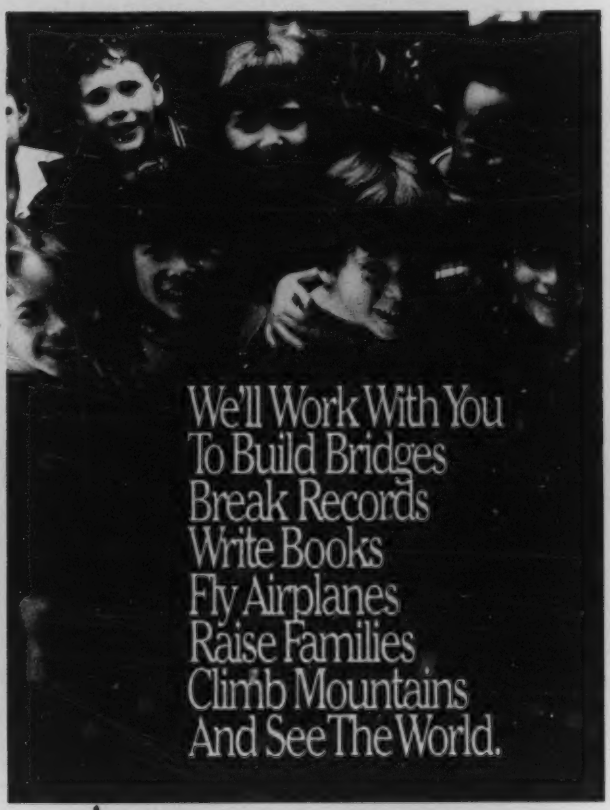
What is the difference between "communications" and advertising? An executive in a company that separates the two says: "The communications activities are much more information based than sales based. We are placing the company in perspective; we present the overall picture and explain to the public why we are better. The advertising and marketing people try to attract the public to the company and close the deal." An investor may indeed be buying into the company, while a consumer may purchase one of its products or services. Yet, those interviewed say that the lines are blurring. Their image-building activities involve a mix of public relations and advertising, while their corporate advertising often blends corporate and product messages.

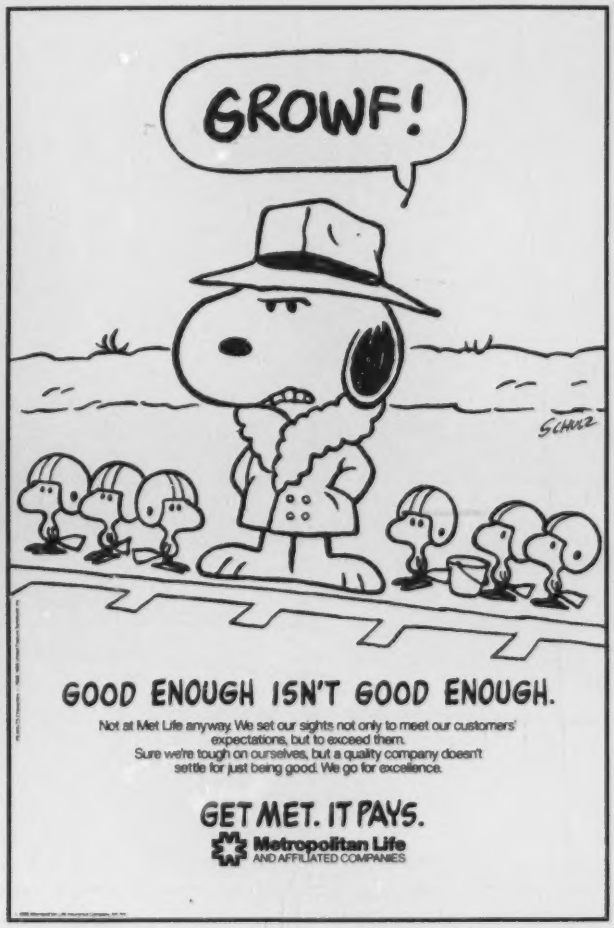
Three-quarters of the survey respondents report that their company has a corporate advertising campaign, and almost 60 percent launched campaigns in 1986. The current campaigns were a first for a handful of companies. The largest portion of firms, just under half, have made a complete change from past campaigns, and another 20 percent have made a major overhaul. A quarter of the companies made few or moderate changes since their last campaign.

Overall, companies say the most important reason for changing their campaigns is to heighten public awareness of the company, its products, and its services. The need to address *new* target audiences and markets is next in importance. A dozen firms ranked a corporate name change as important or very important. (See Table 5.) Norwest Corporation is an example of a company that undertook a name-change campaign. (See box on p. 20.) Not surprisingly, *customers* are the most important audience for corporate advertising campaigns, followed by business leaders, the media, shareholders and local opinion leaders (Chart 6).

About 20 companies with corporate advertising programs recently experimented with new vehicles for delivering their message. Eight companies introduced television advertising, and 11 moved to print media—possibly a reflection of a trend

Exhibit 4


We'll Work With You
To Build Bridges
Break Records
Write Books
Fly Airplanes
Raise Families
Climb Mountains
And See The World.
At Norwest, we know something about making dreams come true. We've been doing it for a long time.
But now we want to do more, better, faster. So we're putting service to the top of every list.
We're bringing the full force of our experience and vision to every financial need.
And 15,000 Norwest people are more determined than ever to deliver their individual best.
For our efforts, there will be more bridges built, music made, roadblocks raised.
Bring your dreams to Norwest. We're the bank that knows the way.
We Know The Way. We Are Norwest.
NORWEST BANKS


GROWF!
SCHULZ
GOOD ENOUGH ISN'T GOOD ENOUGH.
Not at Met Life anyway. We set our sights not only to meet our customers' expectations, but to exceed them.
Sure we're tough on ourselves, but a quality company doesn't settle for just being good. We go for excellence.
GET MET. IT PAYS.
Metropolitan Life
AND AFFILIATED COMPANIES

away from the more costly TV campaigns.[3] Direct mail marketing and sponsorship of special events were each the vehicle of choice for nine companies. Other approaches included underwriting of public television and radio programs (six companies), billboard and poster campaigns, or cause-related marketing activities (four companies each).

Companies are looking for ways to stand out in their advertising efforts. (See box, p. 26.) Those interviewed point to growing advertising budgets for major players like Metropolitan Life, John Hancock, Prudential and other firms trying to project a broadened, "financial service" image. "Our management has reached an attitude of resigned acceptance to spending big bucks on advertising," says one communications executive. Some companies are thinking ahead: "We are spending less time supporting the company as it is and more time positioning it for markets that are targets for growth. Before, we concentrated on distribution systems but now we must also focus on consumers," says an executive involved in national advertising. In banking, some companies are in advertising and marketing competition to capture a share of the much sought after "middle market" of corporate clients. Others are trying to draw attention to their investment banking capabilities, and many are competing for the attention of the individual consumer.

Two themes emerge from interviews. One is the combination of corporate and product advertising. "Image is now part of the way we sell products," says AEtna's communications executive. The other is a move to "humanize" financial institutions. Metropolitan Life adopted the *Peanuts*® cartoon characters for its advertising campaign, coupling them with a slogan: "Get Met, It Pays." "We believe that this innovative approach has succeeded in both breaking through the advertising clutter and changing the company's image from a staid insurance company to a leader in the financial services industry," comments the company's Director, Corporate Communications. Norwest Corporation's approach is similar but also has a product message. "We have

[3] Nevertheless, television advertising budgets are growing. In a recent study by the Television Bureau of Advertising, financial service firms reported spending $857 million for TV ads in 1986, up 21 percent from the previous year. Insurers were the leading segment, with expenditures of $263.7 million, followed by banks and savings institutions with $219.5 billion. The largest single advertisers were American Express and Sears Roebuck and Company at $80.5 million and $73.2 million respectively. See "Insurers Lead Financial Services Advertisers". *National Underwriter* (Life & Health/Financial Services Edition), April 20, 1987.

Chart 6:

Target Publics for Recent Corporate Advertising Campaigns of Financial Service Companies

(N = 55 Companies)

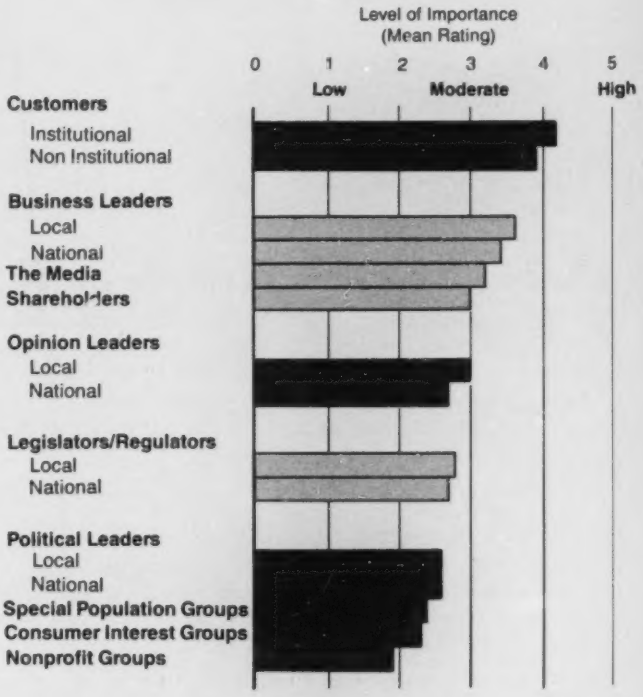


Table 5: Reasons for Changes in Recent Corporate Advertising Campaigns

Reason for Change	*Number of Companies*	*Percent of Companies Considering Reasons:**		
		Important or Very Important	*Moderately Important*	*Of Little or No Importance*
To heighten awareness of the company and its products/services	52	90%	10%	0%
To address new target audience(s) and markets(s)	49	40	40	25
To replace a campaign that had "worn out"	48	40	15	45
To introduce a new line of business	48	30	20	50
To announce a change in the company's name	46	30	0	70

*Percentages are rounded.

never been very product oriented in our ads, but this is changing. Research seems to indicate that people make decisions about where they bank on some human-relations factor. It is the service behind the product and the confidence in the organization that makes the difference—the products are very similar. Our campaign focuses on people in real situations who are able to get things done because of their relationship with Norwest," says its Vice President, Corporate Communications.

Projecting the Corporate Image

Executives offered a variety of scenarios in which new image initiatives were undertaken by their companies.[4] Several had to do with top management decisions to emphasize corporate communications:

- Security Pacific's new thrust began about ten years ago.

  As the company diversified into a variety of banking-related businesses, senior management felt that growth into a multinational company demanded more visibility. "People thought we were a railroad," says its Senior Vice President, Corporate Communications. A new executive was hired to manage an area that today encompasses government relations, communications, community affairs, and corporate contributions.

  Instead of corporate advertising, Security Pacific chose press relations and organized an "energetic, aggressive public relations program." Staff members are assigned "beats," some internal and others external. They seek and place stories, disseminate information through the wires, and defend the corporation against attack.

  "We don't do many press releases," says the company's communications executive. "Rather, we work aggressively to create coverage for bright people doing bright things. We promote interviews with executives in the company from the top down on every facet of our business. There is less competition for space than one would think. Very few companies are really good at bringing this approach off consistently—you can't be too aggressive or self-serving, or lacking in candor."

- In neighboring Beverly Hills, Great Western Financial Corporation, which recently reorganized its communications function (see page 18), used 1986 as a "standardization year." Its image activities focused on new letterhead, business cards, and a manual to help divisions make consistent use of the company image in their communications. While maintaining an extensive publicity campaign for products, its communications executives also began to examine the role institutional advertising might play. In Spring, 1986, to mark the beginning of Great Western's 100th Anniversary, the company revived an advertising campaign it sponsored about 10 years ago when actor John Wayne was its spokesman. The scripts, note the company's press release, "emphasize traditional values personified by Wayne and associated with the old West: Honesty, integrity and reliability." A bronzed statue of Wayne on horseback is a prominent feature of the plaza outside the company's headquarters.

- In an effort to rebuild confidence in their organizations after several years of well-publicized financial gloom, both Continental Illinois and BankAmerica launched corporate advertising campaigns for their bank operations early in 1986. Bank of America used the theme "We want the job." Following its reorganization, says Continental Illinois' communications executive, the company chose the theme "We work hard, we have to." The rationale, "We wanted to let people know that we have benefited from our experience. Today we are a better

[4] For more information on corporate image programs, see Maria Simpson, editor, *Corporate Identity: Name, Image and Perception*. The Conference Board, Report No.898, 1987.

What's New on the Page and the Tube?

Transamerica Corporation, with headquarters in San Francisco has experimented with a broad range of advertising techniques. "There has been a change in our advertising philosophy over the past five years. Unless we can do something really noticeable, we won't do anything", says its Vice President, Corporate Relations.

Local endeavors included sponsoring a "Sing It Yourself Messiah" on public television and the Transamerica Open Tennis Tournament—"the largest in the Western United States and among the top 10 or 12 in drawing ranking players." On the national level, the company was a major sponsor of the the 1984 Olympics and of the U.S. Olympic team and launched a sizeable advertising campaign in Los Angeles during the games. It was the first company to use a "pop-up" print ad in a national campaign: A stand-up, three-dimensional replica of its distictive, pyramid-shaped headquarters building in San Francisco, complete with such landmarks as Coit Tower and the Golden Gate Bridge, was the centerfold in a September, 1986 issue of *Time Magazine*. The opening read: "Would the most innovative insurance company in America please stand up?"

To reach consumers who have been identified as educationally and economically "upscale", the company is putting more of its television advertising dollars into cable and is targeting its network advertising, using a "Sunday strategy." "Research tells us that members of our target audience do not watch a lot of television during the week but do watch heavily on Sunday," says the firm's corporate-relations executive. "We buy time from Sunday morning through the closing network programs. That way, we hit the target market repeatedly during a compressed period and make a more lasting impression."

bank. We are able to deal with whatever the customer's problem is."

- Northwestern National Life, a life and health insurer based in Minneapolis, had a different problem. Its products are generally not sold directly to consumers, but it wanted higher visibility within its distribution system. Its communications executive, newly appointed in the early 1980's, works to build awareness of the company among insurance agents and industry insiders. He began by placing articles in local newspapers and magazines and then expanded the effort to trade magazines. As financial conditions improve, the next audience will be national media. "In 1983, we went from a career to an independent agent distribution system and that experience was of interest to the trades," he says. "Now we need the financial growth that will attract national media coverage."

For many financial service firms, maintaining and projecting corporate image is a continual process. Some successful companies engage in periodic image polishing to remind their publics of the firm's prowess. AEtna's 1986 corporate advertising campaign included sponsorship of a TV network drama about the Russian Czar, Peter the Great. Posters advertising the show had the headline: "AEtna isn't sponsoring Peter the Pretty Good."

The Prudential, now diversified into property and casualty lines as well as securities and real estate, is known for its corporate logo—the Rock of Gibraltar. In the 1970's, Prudential made a major change in the rendering of the rock, moving from a realistic representation to more stylized graphics. In its 1986 TV spots, the camera followed a moving rock as it glided past major U.S. landmarks—an effort to underscore the changes in the company. This year, the realistic rock is being replaced in TV ads by one done by computer animation. According to recent press reports, the 1987 message is that financial services can bring people financial security. By extension, when consumers think of financial services they are encouraged to look to Prudential, to its strong insurance heritage, and to the integrity symbolized by the rock.

Annual Reports

Annual reports from 25 major companies echo themes prevalent in many 1986 advertising and public relations campaigns. (Most of these reports were released in Spring, 1986.) While photography was chosen for cover art by 60 percent of the companies, almost a third preferred a "no frills" approach (the company name on a plain cover), and the remainder chose graphics. Most of the reports convey a tough business message: Many companies stress recent business reorganizations and newly developed strategies. For example, Imperial Corporation of America used the slogan "In Shape for the Long Run" on its cover, and Merrill Lynch states that its mission is "To be a client-focused, worldwide financial services organization, striving for excellence by serving the needs of individuals, corporations, governments and institutions." Other reports tout their company's innovative spirit, efficiency, or commitment to performance.

Customers and employees were the inspiration for messages delivered by a handful of reports. American Express portrayed a consumer with the heading: "She makes our most important marketing decisions." St. Paul Companies, Mellon Bank, and others singled out their employees as important assets. Companies such as Travelers, Manufacturers Hanover, and John Hancock called attention to the changes in customer relationships and in the business environment for banking and financial services respectively.

Few communications executives have responsibility for investor relations; however, those interviewed reported working with investor relations on an "as needed" basis. Corporate advertising campaigns, for example, are frequently designed with investors in mind, and communications staff may provide support for special events targeted to stimulate investor interest. Overall, however, communications executives say that the part of their job related to stockholders—preparation of annual and quarterly reports—has changed little in comparison with other areas.

The Finishing Touch: "PR" Events, Promotions and the Like

Almost 90 percent of the companies surveyed say that their firms sponsored some kind of special promotion over the past two years. At least 70 percent of the companies sponsored concerts, art shows, marathons, or other sports events. All of those firms backed musical events or art shows. Even more than 70 percent were involved in sports events. Sponsorship of special meetings or conferences is popular with six out of 10 companies and about half fund museum exhibits and underwrite public television or radio programs.

"Cause-related marketing," tying a product promotion to a social cause, is a technique made prominent by American Express.[1] Its best-known campaign was linked to the Statue of Liberty Centennial. Consumers were assured that American Express would donate a penny to the Statue of Liberty campaign every time they used the firm's credit card or purchased its travelers checks. Communications executives are ambivalent about such campaigns; only a handful of survey participants say they use this technique.

Several insurers note that cause-related marketing would probably not be useful to them, since they use distribution systems rather than marketing directly to consumers. Other executives acknowledged that they were "leaning" toward the technique but still had reservations about cost-effectiveness and impact. Some worried about the implica-

[1] For more information on the American Express cause-related marketing program, see Anne Klepper and others, *Corporate Contributions Outlook, 1987*. The Conference Board, Research Bulletin No. 204, 1987.

tions of the approach for nonprofit groups—would it lead to "commercialization" of that sector?

Yet, it appears that the concept is catching on. Recent press reports note that organizations as diverse as the Sierra Club, the Child Welfare League, and the National Women's Political Caucus have linked up with banks and credit card companies or will do so in the future. Under new, "donation-linked" credit card arrangements, banks issuing credit cards will pay a nonprofit group a fee whenever one of its members signs up for a card. Cards are customized with the name and logo of the sponsoring nonprofit organization, which also receives a percentage of each sales transaction charged to the card (perhaps half a percentage point). Some nonprofits are anticipating annual income increases in the six-figure range from this "painless philanthropy."[6]

Target Audiences

Survey participants were asked to what degree they rely on special promotions to enhance the recognition and reputation of their company. The largest slice of firms, about a third, rate local opinion leaders and the media as high on the list of those they hope to reach. Institutional customers also rate high with a third of the companies, but a full 50 percent place low priority on use of special promotions to influence this public. About 70 percent say they seldom take such an approach to reach investors, and 60 percent assign a low priority to their use in reaching national opinion leaders.

Conversely, at least two-thirds of the companies rely on special promotions to a moderate or high degree to enhance their corporate image with business leaders, nonprofit groups, and special segments of the public. For about 60 percent, they are useful to a moderate to high degree for promoting corporate image to individual customers. What about consumer interest groups? In half the firms, the degree of reliance on special promotions to reach that public is low, but just over 40 percent find the approach of moderate use and almost 10 percent rely on it to a high degree. (See Chart 7 for related information.)

To some extent, special promotions are part of a broader corporate trend toward "lifestyle marketing." By careful choice of the kinds of events it sponsors, a company can involve itself in the daily activities of a prized customer segment. For example, a marathon may attract the interest of affluent, college-educated professionals who might bring in business from the firms in which they work. Sponsoring certain folk festivals or art exhibits might attract business from an "ethnic" or arts community, while golf or tennis tournaments entice corporate CEO's or other top managers and may pay off in new institutional clients.

[6] See Andrew L. Yarrow, "New Allies: Credit Cards and Causes". *The New York Times*, February 7, 1987.

Does this work? Interviews suggest that the answer depends on a company's objectives. "Companies must look for situations in which they have a unique opportunity to exploit sponsorship opportunities—everyone wants the one-dollar investment that gets a billion dollar return in publicity," comments Transamerica's Vice President, Corporate Relations. Says a midwest banking executive: "I think that it helps, but the money is hard fought for and the events must be newsworthy. If they are, the company gets more print or media space and the public associates the company with something positive—the general perception is 'this must be a good shop.' But we are becoming selective; not every event or exhibit contributes to our strategy." A West Coast banking executive elaborates: "Unless you have total ownership, your name gets left out, and total ownership can cost big money. I wonder if it is cost-effective. It can help heighten visibility, but has it ever sold a checking account?"

Predictions from Communications Executives

Asked to look a few years ahead and to identify the most important challenge they will face, survey respondents split about even in citing internal and external forces. High on the list of *external* challenges mentioned by 40 percent of the 64 respondents is delivering the most effective message to their publics.

- Differentiation, competition and change are common themes, as is more effective interaction with the press. "We have to tell our stories honestly, believably, the good and the bad, in a more positive way—everybody is a competitor now!" says a banking executive.
- Reaching consumers and the community are also important concerns. "We must restore consumer confidence in the insurance and reinsurance mechanism;" "We must develop and implement the type of services that fulfill the customers' needs yet are simple, flexible, profitable and competitive;" "We must adjust to a more opinionated, demanding consumer;" and "We must create a sense of customer loyalty."

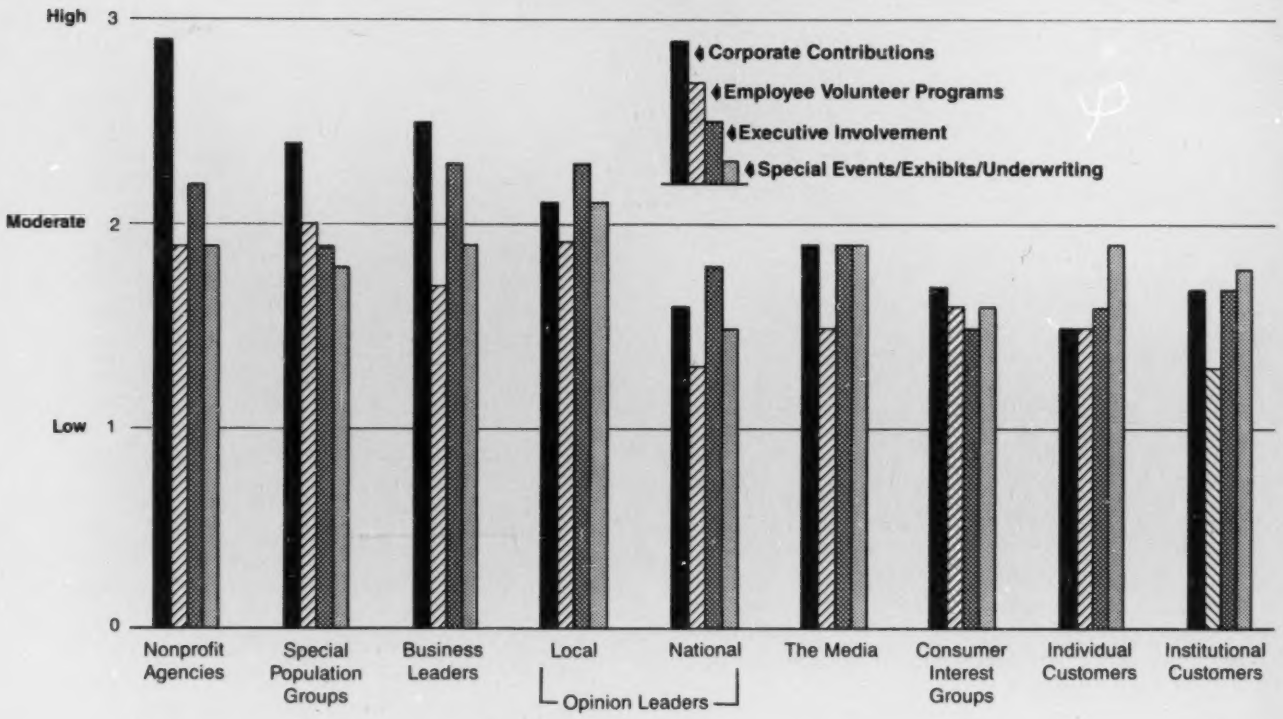
On community challenges, participants offered these observations: "We need to be constantly vigilant and aware of community concerns;" "We must integrate social responsibility activity into a productivity dominated environment. We need to be aware of the widening gap between the haves and have-nots."

- Issues ranging from testing for the AIDS virus to deregulation are among the major challenges for another 15 percent of respondents. Bankers' concerns include: "Explaining changes in the banking industry due to deregulation to customers, employees and shareholders;" and the "continuing effects of being *partly* deregulated!" Insurers had both specific and broad future agendas:

Chart 7:

Degree of Reliance on Social Involvement Activities to Enhance Company Recognition/Reputation among Key Publics

(Mean Ratings)*



* The number of respondents to each item varied, but averaged 70 companies.

"communicating life insurance companies' position relating to underwriting AIDS victims" and "educating the public and media about how the industry works. Many people think that insurance is a 'right' rather than an individual contract."

For a third of the executives, the biggest challenge is *inside their own companies.* Credibility and bottom-line impact head the list, with interaction among communications and line managers close behind. Many echoed the same theme:

- With top management: "Convincing them that corporate communications is as important to the bottom line as 'line' functions;" "having senior management view this as a management function;" "getting involved in policy issues/management decisions at an early stage."
- With line management: "Working hand-in-hand with line managers;" "optimizing the marketing mix to include an appropriate role for communications;" "working with the line to build market share nationwide and to expand the product line."

For just over 10 percent of the executives, budget constraints, cost-effective procedures, and changing corporate economic fortunes presented major challenges. These respondents talked of "allocating managerial and financial resources efficiently while sharpening program focus;" "making the communications program effective within budget constraints;" and "maintaining our level of commitment in the face of cost-cutting pressures."

Chapter 4
Social Involvement

Financial service firms, especially banks and insurance companies, traditionally have strong ties with their local communities. Such relationships extend from top executives serving on the board of directors of key community organizations to firms investing in housing, economic development, and social service projects. As competition in the industry increases, so do corporate initiatives that blur the line between company promotion or marketing and "socially beneficial" activities. (See Chapter 3.)

Not only do the activities of contributions and community-affairs executives now blend with those of corporate communications, but they also intersect with the work of government-affairs executives. Corporate lobbyists at all levels of government may point to the firm's involvement in economic development or in nonprofit activities to demonstrate that the company acts responsibly. Moreover, like their colleagues in other aspects of public affairs, social-involvement executives say they are under increasing pressure to demonstrate that their function is relevant to the firm's performance.

Scope of Programs

All the financial service companies surveyed have corporate contributions programs. Most go beyond this basic commitment: 85 percent have employee-volunteer programs, and three-quarters have executive-involvement programs. In eight out of ten firms, executive involvement includes "loaning" executives to nonprofit or government agencies; all encourage service by executives on the boards of nonprofit organizations. In addition, about 45 percent of firms make "social investments"—loans, deposits and investments that benefit nonprofit groups, but yield rates of return to the company that are less than those applied to a regular market transaction. (See box on page 31 for an example of a comprehensive social-involvement program.)

Contributions and Community Affairs

Overall, companies interviewed for this study say they are maintaining the dollar level of corporate giving programs but are giving them a more narrow focus. "In more flush times we might have been concentrating on six areas. Now we are down to three," notes one executive. At Travelers, contributions executives are both giving their programs more focus and looking for more public-relations mileage from their grants: "We are assuming a leadership position in supporting programs for older Americans, youth education, small business development and growth, and alternative dispute resolution. Major grants are now announced in press releases and our annual reports on contributions include more description of specific grants."

In the Conference Board's most recent survey of corporate contributions, banks and diversified financials earmarked the largest portion of their giving to health and human service organizations, while insurance companies stressed civic and community activities. Compared to firms in most other industries, banks gave a relatively high proportion of their contributions to arts and cultural organizations.[1]

The ACLI, the trade association for life insurers, has long maintained a clearinghouse for social-involvement activities by its member companies and profiles their efforts in an annual report. Recently, ACLI's "Center for Corporate Public Involvement" called upon its members to increase their commitments with respect to education, the elderly, the hard to employ, health and wellness, housing and hunger and the homeless.

In addition to cash and noncash contributions, financial service companies work with public- and private-sector

[1] Linda Cardillo Platzer, *Annual Survey of Corporate Contributions, 1987 Edition*. The Conference Board, Report No. 896, 1987.

groups that sponsor projects such as job training, housing, community improvement, and downtown redevelopment. (See box on pages 32-33.) Bank of Boston made community involvement the focus of its 1985 annual report using the slogan "Community Commitment: A Bank of Boston Strength" on the cover and devoting more than 20 pages to a profile of its activities. Its communications department also ran several community public relations campaigns, including one in which leading sports figures warn young people about the hazards of drug abuse.

Prudential's Social-Involvement Program

The president of the Prudential Foundation, who is also a corporate vice president, public affairs has five areas of responsibility:

(1) The Prudential Foundation, which has assets of about $110 million and makes grants that are classified as "charitable" under the federal tax code;
(2) Corporate contributions, which include donations of money, services and property, as well as coordination of resources spent on company memberships, ceremonial dinners, and events;
(3) Social investments, which often require a below-market rate of return and the acceptance of a higher than usual risk but have desirable social outcomes;
(4) Community-affairs activities at headquarters and other company offices, including coordination of employee volunteers and loaned executives and involvement in civic and related activities at city, county and state levels (but not regulatory and legislative activities);
(5) Staff support for civic and social-involvement activities for the company's top executives and their business units (such as service on a nonprofit organization's board of directors or service on a government task force).

The public affairs unit is responsible for annual and ongoing "social responsibility" planning for both the corporation and the foundation, and it works with other staff functions, e.g., like issues management and legal affairs, in designing its plans. Many of its strategies are tuned to the needs, goals and plans of line and other staff operations. "It is difficult to see this function existing solely as a separate group," says its vice president. "With so much concentration on the bottom line today, the call on time and resources is very great. Our function must be fully integrated within the corporation if we are to be effective outside the corporation."

Relationships between social-involvement professionals and other staff and line functions take many forms:

- At the corporate level, the unit's staff helps top executives to evaluate requests for loaned-executive time, participation on boards of nonprofit organizations, or involvement in fund-raising. If any association with an outside organization is very important to the company, a member of the unit may be assigned to do background preparation for meetings and so on for the executive.
- Executives from line and staff functions are asked to serve on consulting committees that help the unit to focus its grants, investments and civic-responsibility activities on issues of importance to the company, such as liability and tort reform or biomedical research. Each major office of the company also has at least one employee committee that meets regularly to discuss how the company may become more involved locally and to guide the firm's choice of grant recipients and civic activities.
- Social investment experts work in tandem with the company's real estate department. The company has about $400 million invested in office buildings, hotels and the like in downtown Newark, New Jersey, its headquarters community. It recently made a social investment in a project initiated by a group of minority entrepreneurs that will develop housing in one of the city's "most devastated" areas. "We wanted to demonstrate our interest in people who live in our city neighborhoods, as well as those who work here," comments the Prudential Foundation's President.
- Community affairs activities may involve public/private partnerships, encouragement of nonprofit community services, work on local tax policy or other issues. At the Newark office, there are monthly meetings among executives from real estate, legal, communications, contributions, social investment, and buildings management to discuss company interests at the state, county and city level and to evaluate opportunities for cooperative efforts.
- Informally, Foundation executives meet periodically to brief other corporate executives on their philanthropic goals, to discuss ways to match the goals with line, department or business unit objectives, and to elicit new ideas for complementary projects. For example, since the elderly are a key customer base, Foundation grants support areas of key need for this group, as well as programs that generate new insights about the elderly.

"Overall," says the executive responsible for Prudential's social involvement activities, "our staff looks for ways to show others inside the company that we are part of an integrated whole. They can use us and we can use them productively. We are looking to create a value for the corporation, as well as for society."

Coalitions Focus on Jobs and Education

In addition to individual activities, several financial service companies recently announced that they would take a coalition approach to community problems. In New York, three banks (Citibank, Chase Manhattan and Manufacturers Hanover) agreed to hire 250 graduates annually from a public school program sponsored by community churches in the city's East Brooklyn section. The project, based on a successful Baltimore prototype, aims to lower the school's high dropout rate.

In Boston, where only about half of the city's public high school graduates currently go on to college, financial service companies are in the forefront of an effort to motivate high school students to stay in school and to prepare for college. The companies agreed to guarantee financial assistance to all public school graduates who are accepted by a college. Bank of Boston, New England Mutual Life Insurance Company, John Hancock, and Bank of New England each contributed about a million dollars to provide an endowment for the effort. In all, 40 companies are providing financial assistance and 350 have promised jobs to students who complete college. (Sixty percent of Boston's public school students come from families on welfare, 65 percent are members of minority groups, and about 50 percent of high school students drop out before graduation.)

Social Investments

In addition to outright contributions to nonprofits, many financial service companies offer expertise, loans and investments to community organizations. The loans are made at rates below those prevailing in financial markets and the investments may produce returns over a longer term than would conventional investments. Deposits are another vehicle—Cleveland's Ameritrust maintains a linked-deposit program with the State Treasurer. The state deposits funds with the bank, which pays for them at below-market rates and then makes low-interest loans to small businesses in depressed areas.

Social investments often involve coalitions of public- and private-sector organizations and funding from government, foundations, community development organizations, and other sources. Companies may also help the borrower or investment partner in project management and marketing. These investments can involve substantial amounts: Social

Community Involvement at Security Pacific

Security Pacific's Senior Vice President, Community Relations is responsible for:

- Community Affairs, which includes the corporation's involvement in educating and training young people and teachers; adopt-a-school programs and the like. This office also coordinates the company's employee volunteer program and its "Talent Bank", a volunteer force of performers (instrumentalists, vocalists, and even clowns).
- Community Economic Development, through which the company maintains long-term liaisons with economic development professionals in city, county and state government, as well as ethnic groups that have formal economic development programs (e.g. the United Indian Development Association). Compliance with the Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act (HMDA) is also coordinated through this office, as are efforts to develop local government contacts as the company expands into new communities.
- Community Relations, which tracks company executives who serve on boards of nonprofit service and civic organizations and handles internal recruitment for such activities. This office also oversees the company's dues and memberships in professional and civic organizations and coordinates the activity of the Joint Network Council, a statewide advice and support group for minority employees. In general, community relations builds bridges between the firm and community constituents, providing help to outside groups and staff support to the outside activities of senior management.

These three areas have functioned as a unified department for about two years, but many of their programs have existed within Security Pacific for many years. Planning is becoming more formal as the unit builds a base of experience and is able to assess costs, says its executive: "With more data, we will be able to set priorities and develop short- and long-term strategies." Currently, there is a good deal of coordination between community relations and charitable contributions, which are handled through a company foundation. Many of the unit's programs have ties to corporate business objectives.

Security Pacific's management believes that its employees are a major ingredient in community involvement. Community activities improve employee morale and enhance the corporate image, which in turn generates community support that can reinforce or expand business opportunities that generate corporate profits. Although the company does not claim to have documented the process, it feels that it has enough anecdotal evidence to justify its policy.

Employees are involved in a wide spectrum of activities:

- In 1986, Security Pacific received a White House award for SecuriTeam, a four-year-old program with nine

investments by 12 financial service companies participating in the Board's 1985 contributions survey had a face value of $101 million, representing about $9 million in reduced income. In comparison, 103 financial service companies reported $218 million in corporate contributions.[2] Development of low- and moderate-income housing and of new businesses in economically depressed areas are often major objectives, but there are other goals as well. Exhibit 5 on page 34 shows the scope of the social-investment program at Prudential.

Housing and Social Investment

The plight of homeless families is often tied to a shortage of low- and middle-income housing. Financial service companies point to their long-term involvement in this area. Some work through partnership arrangements, such as Neighborhood Housing Services (NHS). Allstate Insurance Company combines its work with NHS with a "Full Insurance Partnership Program" in several communities. (See Exhibit 6 on page 35.)

[2] Platzer.

Late in 1986, seven prominent New York City insurers announced the formation of a Housing Partnership Mortgage Corporation. Through the new entity, the insurers will offer thirty-year, fixed-rate mortgages to landlords and developers of low- and middle-income housing before development begins. In the past, the risk of sharp interest rate hikes made landlords and developers uneasy about undertaking the construction or renovation of such housing. Banks were reluctant to extend credit, fearing that the projects might be financially shaky and prone to default. The seven companies are investing $50 million to launch the project; additional commitments will be based on performance.

Banks, Consumer Groups, and Local Investment

In general, companies do not rely on their social involvement activities to influence consumer groups (Chart 7, p. 29). Nonetheless, banking firms, especially those hoping to expand into new communities, are finding consumers to be a newly vitalized force. In the past few years, as regional banking compacts have opened the door to acquisition and merger

chapters in company locations throughout California. Its more than 4,000 members contributed over 40,000 volunteer hours cof their own time in 1986. "This is not the kind of activity that requires people to sign on forever. It is highly structured: They can go in, do an activity and leave", says the company's Senior Vice President, Community Relations. Typical activities include involvement of a volunteer and family members in a local "Special Olympics" (sports programs for the handicapped) or participation in a telethon. Five full-time professionals spend at least half of their time on SecuriTeam.

There are a few basic restrictions to this company-sponsored volunteer work. SecuriTeam does not participate in projects that are strictly religious or political, that advocate philosophical viewpoints, or that conflict with the company's philosophy. In addition, SecuriTeam does not raise funds, although it may provide volunteers to help staff a nonprofit organization's telethon or fund-raising project.

- The company's talent bank, about two years old, makes use of employees with performance skills, as well as occasional guest artists. Employees must audition, are generally above average," and currently participate in a chorus and in a variety of instrumental groups. The performers are booked throughout the community by a staff professional, who devotes part-time to this program.
- Use of employees in training young people for entry-level jobs within a corporation is a long-term commitment at Security Pacific. During the school year, in cooperation with the California Regional Occupational Program, the company offers 135 programs, each with an enrollment of 25 25 to 30 students. The state pays the employees who serve as faculty and the company picks up the remaining costs for the classes, which are held in the evenings and on Saturdays. Students in these programs learn skills useful in banking (e.g., account reconciliation, data processing).

  In another bank program, young people learn to type, send memos, use the phone system, or perform basic office skills. Using a formal course outline and daily lesson plan, staff volunteers work with students four hours a day for about ten weeks. Although these activities benefit the community, they also reward the company, which can recruit promising students after graduation or begin relationships that eventually might yield customers or stockholders.

Other community-relations activities have paid off substantially in the realm of "reputation," its community relations executive believes. Those programs include the company's long-term involvement with Native American, Asian, Hispanic and Black organizations and with local economic development. When CRA disputes arise, "We are the bank that is held up to others for emulation", he says. "When you have deep roots in the community, you can surface issues and deal with them before they become problems. We have the second largest branch system in the country. Our involvement simply makes good business sense."

activity, consumer groups used the provisions of the Community Reinvestment Act (CRA) to improve their bargaining position. Passed in 1977, this federal law is designed to prevent "redlining" by lenders—i.e., selective policies that exclude residents of poor neighborhoods from access to bank credit.

Under the law, if a federally chartered bank wants to open new deposit facilities, engage in mergers, or secure new branches, it must first demonstrate to regulators that it is meeting the credit needs of people in the communities it already serves. CRA and the related Home Mortgage Disclosure Act require that federally chartered banks and thrift institutions disclose mortgage lending by census tract. They also require that a statement describing CRA performance be available for public review. Many firms print and circulate an annual CRA report (Exhibit 7 on pp. 36-37).

Banking executives interviewed for this study say that the consumer scene is generally quiet. However, several acknowledge that either their firm or another bank in their community recently dealt with consumer group activity relat-

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Exhibit 5

Prudential's Social Investments Program

Areas of Interest

Specifically, Prudential's Social Investments Program is targeted for the following types of needs:

Commercial and Economic Development

Projects that stimulate the economy in distressed urban areas, particularly those that stimulate an expansion of services or new business growth.

Neighborhood Stabilization

Proposals that help stabilize neighborhoods through mechanisms such as housing rehabilitation and the retention or attraction of small businesses, or projects that otherwise have the potential to upgrade the neighborhood's economic base.

Education

Development of new educational services and the promotion of educational and training opportunities for the economically disadvantaged.

Health Care

Innovative health care projects that lead to lower medical costs or to improved delivery of health services in underserved areas, and to disabled persons.

Rural Development

Projects that assist disadvantaged farmers to improve their farming techniques and increase crop yield, or projects that lead to an improvement in living or economic conditions in rural areas.

Energy

Programs that stimulate development of alternative energy sources or provide for more effective utilization of energy supplies.

History

During the past decade, Prudential formally introduced its Social Investments Program to profit and non-profit organizations that serve special socioeconomic needs in America's communities.

The Social Investments Program utilizes Prudential's management and economic strength to respond to these special social needs. In addition to making money available for ventures that would not normally qualify for investment financing, the program often makes investment loans at below-market interest rates. Social investment funds have been crucial in establishing a wide variety of enterprises, including shopping centers, the purchase of a factory by its employees, and the establishment of a minority-owned cable television service for an urban center.

Throughout a given calendar year, Prudential will make investment loans to organizations in various segments of our society. In order to have maximum impact, investments of at least $1 million are preferred. Generally, we look for establishments that have a proven track record and exhibit strong growth potential.

Loan Criteria

Prospective investment loans are measured by a number of factors which include, but are not limited to, the following:

Leverage of Funds

We are interested in projects where Prudential's participation can leverage government or foundation funds and encourage equity holdings or subordinated debt instruments by other lenders. Joint loans with other private lenders are also considered.

Minority and Women Enterprises

Consideration is given to projects that involve the expansion of minority or female-owned businesses with established track records.

Job Creation and Retention

We are interested in the types and number of jobs created or saved and the impact of those jobs on the local job market and economy.

Population Impact

Consideration is given to the extent of need and the number of people served by a project. The impact on unemployment, crime and education are also considered.

Public Support

We are interested in projects that demonstrate support from various constituencies, including local business, governmental agencies and local community groups.

While we do not expect any single proposal to meet all our criteria, we are careful to see that the portfolio in the aggregate covers the entire spectrum of interests and investment criteria.

What Prudential Needs From You

If your organization is interested in participating in the Prudential Social Investments Program, the following information should be submitted with your initial inquiry:

Business Description

We need a general description of your organization, including its structure, products or services, physical facilities, principal ownership and management.

Financing Data

We need the details of the financing desired: amount, term, uses for expansion, acquisitions, etc.; present sources and use of credit, including lease obligations, if applicable.

Financial Statements

We need audited financial statements for at least the last five years and earnings projections for three years.

After we receive this information, we will respond within four weeks with an indication of our interest in the project. Proposals or inquiries should be sent to:

Vice President, Social Investments
The Prudential Insurance Company of America
15 Prudential Plaza
Newark, NJ 07101

Exhibit 6: Allstate's Involvement in Urban Revitalization (an Excerpt from the Company's Urban Affairs Report)

Allstate Insurance Company has a long history of commitment to American cities. We have been primarily an urban insurer for more than 50 years. Although we operate in all areas of the country, we remain committed to serving urban neighborhoods. As responsible corporate citizens, we feel that investment in urban neighborhoods and alleviation of urban problems make sound business and social sense.

Our urban revitalization projects include direct investment in and management assistance to Neighborhood Housing Services programs countrywide. In addition, we conduct training seminars for local neighborhood organizations and offer financial help to grassroots groups in cities across the country.

Neighborhood Housing Services

Neighborhood Housing Services (NHS) programs are a countrywide network of local organizations operating as independent not-for-profit corporations. Neighborhood Reinvestment is the national organizing, advisory arm for NHS, and Neighborhood Housing Services of America (NHSA) operates a vital secondary loan fund for local groups.

NHS programs grow from grassroots and are partnerships among neighborhood residents, city government, and the corporate community. Their purpose is revitalization of city neighborhoods, mainly through revolving loan funds available to residents for home improvement. NHS programs have immediate, gratifying, tangible results. They also provide a long-term boost to neighborhood pride.

Allstate, recognizing the importance of adequate housing for low- and moderate-income city residents, has been an active participant in the development of NHS projects countrywide, believing them to be an effective channel for urban reinvestment. Since 1973, Allstate has allocated more than $6 million in support of NHS programs, assisting community development in more than 195 neighborhoods located in 136 cities throughout 43 states and the District of Columbia. In addition, Allstate field personnel serve on boards and committees of more than 42 local NHS offices, providing management expertise and corporate support. Currently, 34 of our management-level employees sit on the boards of directors or various committees of local NHSs.

Allstate's chairman of the board has served for two years as chief corporate fund-raiser for the Chicago NHS, and also has served as a member of the board of trustees of NHSA. Allstate's underwriting vice president has been our corporate representative on the board of directors of the NHSA, and other Allstate corporate executives have provided additional assistance in the areas of public relations, finance, planning and special programs. In other cities, from Tacoma, Wash., to Tampa, Fla., the company has helped organize NHS field projects, obtained support from other corporations, provided financial help, developed insurance seminars for neighborhood residents, and offered valuable man-hours where needed.

An innovative NHS program is a partnership among Allstate, the Chicago NHS and Farragut Career Academy—one of Allstate's adopted schools. The Chicago NHS has taken title to a fire-damaged residence near the school, and the students are completing as much of the renovation work as they are capable, thus gaining valuable hands-on experience. Allstate will provide funding as well as legal, real estate and insurance assistance. Once renovated, the house will be sold to generate more funds for future projects of this type. Allstate believes that this program will have lasting benefits for all parties involved: The troubled neighborhood surrounding the school will be visibly improved; the school, plagued by gang problems and bad publicity, will improve its image and contribute to the housing stock in its community; the students will gain valuable experience, unavailable elsewhere; and the NHS will fulfill its important role in neighborhood renovation and improvement.

Full Insurance Partnerships

Rebuilding a neighborhood block by block requires hard work and a total corporate and community commitment. In short, a partnership.

Tangible improvements and neighborhood organizing are essential to the growth and stability of any revitalized neighborhood, but equally critical to the survival of NHS housing programs around the country is obtaining adequate insurance coverage.

Allstate has been sensitive to communities' needs for affordable insurance coverage that facilitates the obtaining of mortgages and enables homeowners to rebuild. This sensitivity was one of the factors in the creation of the Full Insurance Partnership Program.

NHS Full Insurance Partnerships were developed to improve access to the voluntary insurance market and to heighten resident awareness of the importance of obtaining adequate property coverage. Allstate was a principal in designing and implementing the first Full Insurance Partnership which provided insurance counseling and referral services to neighborhood residents in Chicago.

In 1979, the company provided technical expertise and a $300,000 challenge grant which allowed for the expansion of NHS services and invested $500,000 in New Partnerships, Inc., a for-profit subsidiary of the Chicago NHS. The seed capital provided by Allstate made possible the purchase, rehabilitation and operation of apartment buildings in NHS areas through the New Partnerships corporation.

Since that time, Allstate's commitment has expanded to serve other urban areas across the country. Two of these areas are served by the company's Rochester regional office, serving Buffalo and Rochester, New York. In Buffalo, improvements and reinvestments, as a direct result of Allstate's financial and counseling activity, have exceeded $30 million since 1981.

In Rochester, through the help of the NHS Insurance Coordinator, door-to-door fire safety inspections have been conducted, electrical safety workshops have been held, and at satellite day-care programs, 140 resident houseowners have been provided with insurance counseling and information about potential liability exposures.

Allstate is involved in 12 Full Insurance Partnerships across the country. The most recently developed of these is in Los Angeles.

Allstate was the first insurance company to provide a major grant to the new Los Angeles NHS. The program has the distinction of being the largest partnership in the country, covering nine neighborhoods and cities. From the outset, Allstate executives on both the local and national levels have been involved in developing that important new program, serving on both the boards of directors and on planning committees.

Exhibit 7: Excerpts from Wells Fargo's 1987 Community Reinvestment Act Statement

WELLS FARGO BANK

1 9 8 7

C R A

Types of Credit

We provide a full range of credit services to help meet our communities' credit needs. All of these services are available to qualified applicants and can be arranged by many of our branch offices.

Consumer Loans
Personal, auto, mobile home, home equity, student loans, lines of credit and credit cards.

Home Equity Loans
Variety of loan products for home purchase, improvement and equity financing.

Real Estate Loans
Conventional loans to build, buy and refinance residential properties and develop residential tracts and loans to build, buy and refinance commercial and industrial properties.

Commercial Loans
Secured and unsecured loans, lines of credit, letters of credit, and SBA and State guaranteed loans to individuals and corporations for the full range of business needs.

Farm Loans
All of our credit services are available in agricultural areas. We work with the Farmers Home Administration to provide loans for housing in low-income rural areas.

Community Development
Financing for low and moderate-income housing development, rehabilitation and small business.

Wells Fargo's CRA Strategy

Wells Fargo participates in several special credit programs which help to identify and meet the credit needs of our communities. We recognize that there is much to be done to meet the credit needs of low- to moderate-income areas. We are committed to improve and expand our loan programs which affect these residents. Here's what we do:

Community Affairs Department

This department was established to direct the evaluation of credit needs of our communities and to develop special programs to respond to these needs. Consultation and department activity review is provided by management and the Board of Directors CRA Committee.

Loan Officers meet with business owners, community organizations and government officials to identify need for financial assistance for affordable housing. Loan requests are referred to bank offices with people trained in the evaluation of these requests. Department goals include continued commitment to:

- Strengthen our contact with community groups and individuals in an ongoing effort to better identify and assess their credit needs, and to tell them about our credit services.
- Work with government agencies, organizations and individuals to finance housing and commercial development which benefit low- to moderate-income areas.
- Enhance community service by providing motivated and skilled business persons for volunteer projects, non-profit community service organizations and Board of Directorships.

Communication in our Communities

We have a special Community Contacts Program directed to our communities with emphasis on low- to moderate-income areas. Branch officers work together to identify key community groups and their credit needs.

We meet with minority and civic organizations, business and labor associations, student, neighborhood, senior citizen and handicapped groups, and government officials. Seminars, workshops, and presentations on banking services are given in many communities. Many offices participate in local economic and community development and civic improvement task forces.

To further emphasize community affairs, the Wells Fargo Volunteer Network conducts business skills training for non-profits and facilitates several community projects each year.

Exhibit 7 (continued)

Special Credit Services:

Community and Economic Development Loan Program

Community Development Housing Projects

These projects include the leveraging of Community Development Block Grant Funds, financing for senior citizen housing, and construction financing for qualified affordable housing projects. Commitments for such projects totalled over $27.22 million in 1986.

Low Income Finance Program (LIFT)

Since 1972, Wells Fargo has provided different credit standards and repayment terms for consumer loans to low income families and individuals. When applicants with good credit records cannot meet our usual credit standards because of low income, longer time for repayment may be granted. In 1986, the Bank loaned approximately $2.82 million in LIFT loans.

Minority and Small Business Loans

The Bank is actively involved in lending to minority and small businesses. Loans are made in cities and agricultural areas with or without financial backing from the Small Business Administration. In 1986, the Bank committed over $19.56 million through these programs.

Financial Assistance

Community Services Emergency Loan Fund

In 1979, the Bank established this fund to provide short-term loans to non-profit agencies in the San Francisco Bay area. The fund helps these agencies solve temporary cash flow problems which result when government-approved funding is not received as scheduled. To date, the Bank has loaned approximately $4 million.

Other Programs

Consumer Credit Counselors

Since 1965, Wells Fargo has supported with grants and staff volunteers, a statewide debt counseling and credit educational service. This non-profit service teaches budget planning and helps people to develop common sense plans for paying off their debts.

Real Estate Loan Review

Applications from residents of low- to moderate-income areas are reviewed twice at loan centers to insure that residents have been fairly considered during the real estate credit review process.

Corporate Contributions and Foundation Grants

Wells Fargo has been a leader in providing financial support to community groups. The Bank gives contributions and grants to organizations with activities in education, health, social service, culture and art, and civic leadership. During 1986, corporate contributions and Wells Fargo Foundation grants totalled $4.43 million.

Neighborhood Housing Services (NHS)

Wells Fargo supports the NHS whose purpose is to reverse the decline of neighborhoods throughout the nation. It achieves its goals by encouraging working partnerships among local government, banks and other financial institutions, neighborhood residents and businesses. The Bank also assisted in the establishment and financing of the California NHS Foundation which helps organize and fund all NHS programs in the state. To date, the Bank has given NHS $605,000.

Student Loan Program

Wells Fargo actively participates in several government student loan programs. The Bank makes loans to students attending pre-approved educational institutions subject to Bank and government requirements. In 1986, over $43.48 million was loaned.

Comments by the Community

We invite all interested persons to comment on the credit needs of their communities. The community served by this office is shown on this map. We respond to all comments. Copies of correspondence are available when requested at the office designated below for your community area. You may request that the file be made available at a branch if the regional office is inconvenient for you or you may contact Wells Fargo's Community Affairs Department. Please see Notice at the end of this CRA Statement.

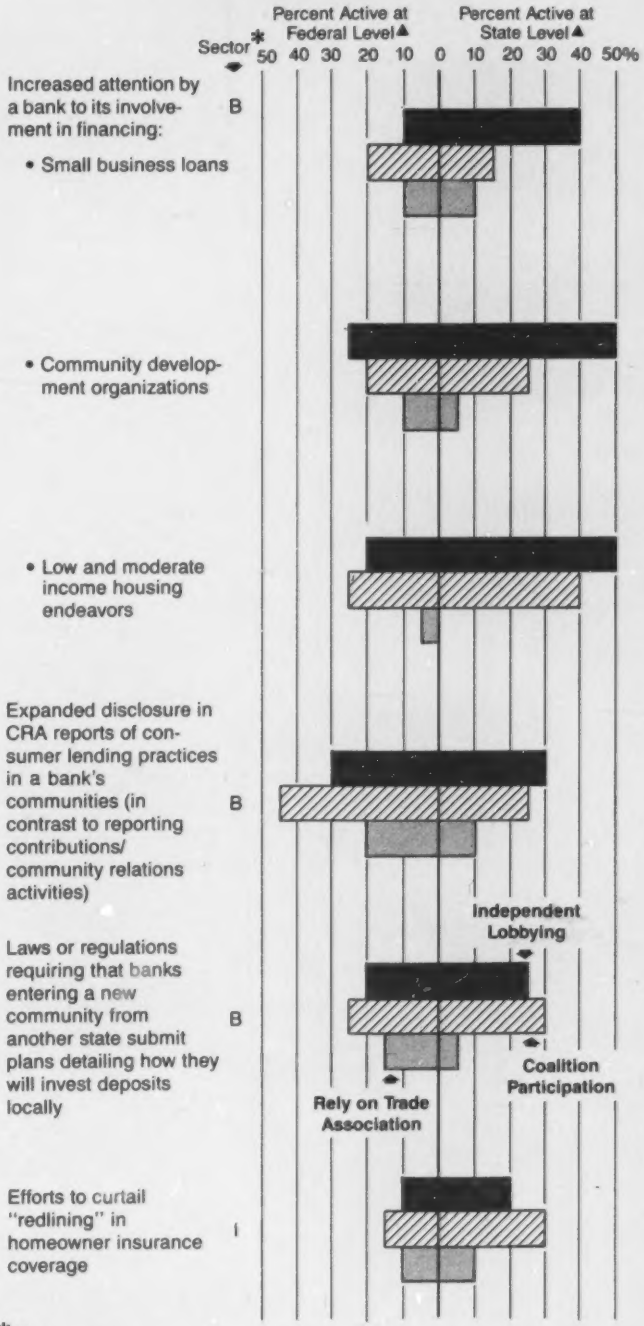
ed to CRA compliance. Generally, those interviewed say that they are proud of their CRA performance and that a good CRA record has enhanced their reputation in the community. In hearings with consumer groups around the country in 1985, however, the Office of the Comptroller of the Currency heard recurrent complaints about CRA compliance.[3] One objection was that bank reports on CRA activity often contained lengthy descriptions of contributions and community-affairs activites, but spotty information on consumer lending practices.

Government-affairs executives were asked if they were involved in lobbying on the issue of expanded CRA disclosure. Almost half of the 30 banks responding say they are part of a coalition lobbying the issue at the federal level; about a quarter report they are lobbying independently at state and/or federal levels (Chart 8). About 20 percent say that their company already addressed this issue. (The redlining issue has also been raised with property and casualty insurers over their policies on home insurance coverage in "marginal" neighborhoods. Coalition lobbying at the state level appears to be the choice among insurers who are active on the issue.)

In general, banks are opposed to additional legislation or regulation in the area of community investment or related matters, preferring a voluntary approach. About a third of the 30 government relations participants in this study say that their banks already address the issue of financing low- and moderate-income housing and community-development activities in their communities. Almost 40 percent report that their services include loans to small businesses and that they are lobbying independently at the state level on this issue. Moreover, about half say they are lobbying independently to deter state efforts to legislate or regulate bank involvement in financing low- and moderate-income housing and community development (Chart 8).

Chart 8:

Lobbying Efforts by Financial Service Companies on Community-Related Issues


Percent Active at Federal Level▲
Percent Active at State Level▲
Sector*
50 40 30 20 10 0 10 20 30 40 50%
Increased attention by a bank to its involvement in financing:
B
• Small business loans
• Community development organizations
• Low and moderate income housing endeavors
Expanded disclosure in CRA reports of consumer lending practices in a bank's communities (in contrast to reporting contributions/ community relations activities)
B
Laws or regulations requiring that banks entering a new community from another state submit plans detailing how they will invest deposits locally
B
Independent Lobbying
Coalition Participation
Rely on Trade Association
Efforts to curtail "redlining" in homeowner insurance coverage
I

*Key:
The number of responses varies, but (N) represents the average response.
B = Banking (N = 30)
I = Insurance (N = 25)

▲ Percentages are rounded.

The Outsider Syndrome

In part, the controversy over CRA and related debates about local investment arises from concerns voiced by executives of small banks, consumer groups, and other local observers. They question whether large banks care about the needs of small communities. Big banks, they argue, might take local deposits and use them to make investments in other localities or even worldwide. This would rob the local community of the capital necessary for small business ventures, low- and moderate-income housing, and community-

[3] To air consumer concerns, the OCC conducted a series of meetings in cities in key regions of the country (Dallas, Kansas City, Chicago, Atlanta, New York, San Francisco) during 1985 as well as a national meeting in Washington, D.C. in April, 1986. A summary for each meeting has been published under the title "Bank-Customer Key Issues Meeting." Summaries were prepared by the OCC's Customer and Industry Affairs Division, Washington, D.C.

development projects. In battles over interstate banking, smaller community banks made effective use of this argument in efforts to bar entry by large, money center banks.

In Maryland, the District of Columbia and elsewhere, state and local legislators have made local investment an entry requirement for out-of-state banks. For example, in 1985 Maryland passed a law that permits any out-of-state bank operating on a limited-service basis within its borders to gain full banking powers—provided it invests $25 million in the state and promises to employ 750 people in one of 10 specific enterprise zones or 250 people elsewhere in the state. Citicorp, which lobbied extensively to enter the state, announced its intention to invest that amount and to create at least 1,000 new jobs, primarily by locating its East Coast credit card operations in Maryland. In return, it may establish up to 20 new branches over a two-year period. Government-affairs executives report that to date there have been limited state efforts to require potential entrants to submit plans on how they will invest their deposits locally. About 30 percent of the companies say they are involved in coalition lobbying on this issue (Chart 8).

Norwest's government-relations and communications executives say that during their corporate name change they became keenly aware that some communities feared dominance by big-city outsiders. Although the holding company had owned banks in many small communities for a number of years, these local banks had retained their names. When they assumed the Norwest identity, some customers feared their local bank had been sold. Local managers feared losing some of their autonomy to Minneapolis. "In the Midwest, rural life is changing and people are worried about what might happen to them and to their towns. Big banks have sometimes missed the point on this issue. They tend to look at a world that is Chicago, New York or Minneapolis," says Norwest's government-relations executive. Nevertheless, big banks can function well in a small community, Norwest executives believe, if bank executives focus on customer service and community involvement.

Closing Bank Branches

Questions about a local bank's responsibility arise not only when banks attempt to expand, but also when they contract and close branches. BankAmerica's social-involvement executive says that the decision to close a branch is made by marketing and other line functions but is reviewed by the company's social policy committee and community-relations professionals. These groups consider whether their colleagues were over zealous in safeguarding the bottom line and evaluate the impact of a closing on the bank's image in the community. They also examine the CRA implications. (Federal regulatory agencies have issued voluntary guidelines on branch closings.)

Working with community groups to find an alternative takes time. For example, it took two years from the time Manufacturers Hanover closed a branch on New York City's Lower East Side until it was replaced with a community-based credit union. According to press reports, the local planning council made a variety of demands upon the bank. The negotiated outcome was an agreement whereby the bank spent $150,000 in renovations for the branch building and allowed the new credit union to use the facility rent free for three years.

Program Impact

In addition to the groups that receive aid, financial service firms hope to reach local opinion leaders, business leaders, and special population groups through social-involvement activities, report senior communications executives. Members of press and the media are of at least moderate importance, while individual and institutional customers and national opinion leaders are the least likely audiences (Chart 7, page 39).

Overall, only about a quarter of the companies surveyed say that they have evidence that social-involvement or special-events programs have helped them competitively. In interviews, executives acknowledged that the impact on the bottom line is not so much direct as one of enhancement. Companies may not want to invest the resources to measure this impact, but neither do they appear ready to forego such activities. The need to differentiate themselves from a growing number of competitors and to engender good will among key publics appears to be strong. As one executive put it: "In this community, even if we were not noticed because of our involvement, we would certainly be noticed—and not very favorably—by our absence."

Appendix

Summaries of Federal Legislation Currently Relevant to Financial Service Companies

The *McFadden Act* of 1927 prohibits national banks from branching across state lines and requires that they conform to the branching regulations of the state in which they are located.

The *Glass-Steagall Act*, or the Banking Act of 1933, was passed following a series of bank failures during the Depression. The Act prohibits commercial banks from underwriting and dealing in corporate securities; investment banks are forbidden to engage in commercial banking activities.

The *McCarran-Ferguson Act*, passed in 1945, provides a limited antitrust exemption for insurance companies (allowing them to share data in order to predict future losses and so on) and acknowledges the authority of the states to regulate and tax insurers.

The *Bank Holding Company Act* of 1956 defines a bank holding company and establishes the Board of Governors of the Federal Reserve System as the supervisor of such firms. The Act specifically defines the Federal Reserve's power to review certain categories of acquisitions, bank holding-company mergers and consolidations. Revisions to the act in 1966 and 1970 redefine the word "bank," classifying it as an institution that accepts deposits withdrawable on demand. These changes also expand the definition of a bank holding company to include those that control only one bank and allow bank holding companies to acquire interests in certain "nonbank" activities.

The *Securities Acts Amendments* of 1975 give the Securities and Exchange Commission (SEC) a mandate to help develop a national market system for securities transactions and a system for clearance and settlement of these transactions. It reinforces a SEC ruling made earlier that year that struck down the use of mimimum brokerage commission rates on securities exchange transactions. Prior to this legislation, fixed commission rates were in effect for over 150 years. Following the deregulation, many firms, including the affiliates of some bank holding companies, began to offer discount brokerage services.

The *Depository Institutions Deregulation and Monetary Control Act* of 1980 expands the loan making authority of savings and loans and mutual savings banks beyond mortgage lending, authorized automatic transfer services for banks, and negotiable orders of withdrawal (NOW) accounts for depository insitutions. The act authorizes a phaseout of the Federal Reserve's Regulation Q by the end of 1986 (the regulation set limits on the amount of interest commercial banks could pay on time deposits). All depository institutions are made subject to reserve requirements (funds held against customer deposits), but they are also given access to Federal Reserve services such as check clearing and the discount window (borrowing privileges to meet temporary liquidity needs).

The *Garn-St.Germain* or Depository Institutions Act of 1982 is targeted to help depository institutions (especially thrifts) compete with the Money Market Mutual Funds being offered by securities firms. All depository institutions are authorized to offer money market deposit accounts, which are exempt from the "Regulation Q" interest ceilings. Also, savings and loan associations and mutual savings banks are allowed to further diversify their loans away from mortgage lending, putting them on a more equal footing with commercial banks. Federal depository insurance agencies* are also given expanded emergency powers to deal with "financially distressed" institutions.

The *Competitive Equality Banking Act* of 1987 was passed by Congress and signed by the President early in August, 1987. The Act provides for a $10.8 billion recapitalization of the Federal Savings and Loan Insurance Corporation (FSLIC) and for regulatory leniency toward troubled thrift institutions for a period of three years. Both financial and commercial firms will be permitted to acquire large, insolvent thrifts (those with assets of $500 million or more).

Further deregulation of banking is slowed by two provisions: New limited-service banks are banned and new restrictions apply to existing units. A temporary ban (in effect until March, 1988) is placed upon regulatory rulings that would expand the powers of commercial banks into securities, insurance and real estate.

The Act also requires that, by 1990, banks clear depositors' check within a shorter time span: local checks should be cleared within two business days and non-local checks within five.

Federal regulators are given expanded powers to deal with failed and failing banks and their agencies are exempted from certain federal budgetary limits.

* The Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC).